THE FREEMAN

IDEAS ON LIBERTY

Women and the Market

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APRIL 1987

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IDEAS ON LIBERTY

1986

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The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

Speak for Yourself!

There are many reasons to support the free market system—a fact reflected in the divergent philosophies of the system's advocates.

For some, the rationale for capitalism is strictly utilitarian: it fulfills the economic wants of the greatest number of people. Others deny the possibility of any single standard of values for all people, arguing that a free, pluralistic society allows for diversity and competition among subjective values. Some hold that capitalism's individualist roots can be traced to Christianity, which recognizes the sacred importance of the individual soul. Still others, from a secular standpoint, contend that capitalism is the only system fully compatible with human life, creativity, and self-realization.

Most people think there is strength in numbers, and feel reassured when they can claim a host of supporters for their positions. Perhaps that is why some proponents of liberty yearn for a mass movement, an identifiable "we." They would have "us" confront the public with a united front—a coalition based on suspension of divisive premises, and focused solely on "our" common conclusions.

But such a unity has its dangers. All philosophical roads do not necessarily lead to the same political destination. Differing premises often color the kinds of conclusions people will reach on a variety of issues. The philosophical disputes among freedom's interpreters and advocates frequently have practical consequences, and should not be evaded.

Yet neither should they be feared. Fundamental debates help us clarify and strengthen our understanding. Just as importantly, debates will refine the emerging arguments for freedom and capitalism.

What is crucial is to maintain open forums for these debates—forums (such as *The Freeman*) in which *individuals* may present their insights, contentions, and understanding for public consideration. Ideas are not spread by coalitions; rather, it is only after individuals advance their own visions of the truth that coalitions can arise around their fundamental positions.

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Today there remains a variety of intellectual arguments for a free society. So let us not pretend to ourselves, or to the public, that "we" are part of some unified intellectual movement. Let us not hide behind the collective "we"; but rather, let us each accept full individual responsibility for our own convictions. In short, when addressing the public, make it clear that you *speak for yourself!*

—Robert James Bidinotto

Freedom Around the World

On his 70th birthday, in 1964, Henry Hazlitt spoke of the importance of continuing the struggle for freedom. In many ways, the situation then was discouraging. But Hazlitt admonished his listeners, "Be of good heart; be of good spirit. If the battle is not yet won, it is not yet lost either." Twenty-three years have passed. Although "the battle" is still not "won," there is cause for cautious optimism.

Groups all over the world are now promoting the freedom philosophy. Some date from before 1964—for instance, this Foundation, as well as organizations in Argentina, England, and Guatemala. But many more have sprung up since and are publishing books, conducting seminars, and establishing educational institutions.

For instance, the Universidad Francisco Marroquin in Guatemala and the Escuela Superior de Economía y Administración de Empresas (ESEADE) in Argentina are dedicated to explaining free market principles and their application to the real world. Some of the books of the noted "Austrian" economist, Ludwig von Mises, as well as those of his Nobel Prize-winning student F. A. Hayek, once again are being published in the original German. Quite a few of them have been published in other languages, the latest being a Spanish translation of Mises' *Planning for Freedom*. Some of the writings of Frederic Bastiat, who had been all but forgotten in his native France, are being reprinted in French by a newly-formed institute in Paris. Other organizations to promote the freedom philosophy are operating in Australia, Austria, Belgium, Brazil, Canada, Denmark, Germany, Iceland, Mexico, Netherlands, Norway, Panama, Portugal, South Africa, Spain, and Sweden.

As Mr. Hazlitt said, the battle may not as yet have been won, but it has also not been lost.

—BBG

A Look at the Supply Side

Bruce Bartlett's first *Freeman* article appeared in 1975. He went on to become one of the leading spokesmen for supply-side economics. Because of the increasing importance of supply-side theory, and because of Mr. Bartlett's familiarity with FEE's free market, limited government stance, we have called on him to explain the supply-side position to *Freeman* readers. See his article, "Supply-Side Economics and Austrian Economics" on page 151.

—BJS

Op-Ed Program Starts Second Year

April marks the first anniversary of *The Freeman's* op-ed newspaper program, in which we send adaptations of *Freeman* articles to a select group of newspapers for use on their editorial or commentary pages.

Thus far, columns have appeared in newspapers in 23 states and the District of Columbia, including such major outlets as the *Houston Chronicle*, the *Phoenix Gazette*, the *Chicago Tribune* and *Chicago Sun-Times*, *The Orange County Register*, Long Island's *Newsday*, the *Dayton Daily News*, and the *San Diego Union*. Combined circulation for all newspapers who have used our columns is over 8 million.

These results are encouraging. They show that FEE, without compromising our message, can readily achieve publication in the mainsteam press.

As we continue with this program, we would appreciate it if you would call our attention to any of our articles you may see. □

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THE FREEMAN
IDEAS ON LIBERTY

Entrepreneurs and Their Gifts

by Jane S. Shaw

The Terrapin Station is a new restaurant in the basement of an old hotel in Bozeman, Montana. At the end of a dingy hallway you suddenly come upon a place that's spiffy and charming, where the tables glitter, as the wine glasses—gaily filled with colorful napkins—reflect the light of kerosene lamps.

What makes this place exciting and heart-rending at the same time is that the proprietors are doing something outlandishly extravagant and probably foolhardy. They are providing a gourmet seafood restaurant for the middle of southern Montana.

You may not know much about Montana, but it's nearly a thousand miles from an ocean and hundreds of miles from almost anything else. Bozeman is a town of 25,000 people. Most of them don't have a craving for seafood, since Montanans grow up on hamburger or beefsteak. And the proprietors aren't selling mere seafood—they are selling exotic preparations such as blackened red snapper and bluefin tuna!

But that's the way it is with entrepreneurs. They take unpromising locales and rough raw materials and try to fashion them in accord with an idea glowing in their minds—a new offering that will appeal to the customers that they believe (against all odds) are there. That's why author George Gilder calls entrepreneurs "givers," people who give first and receive rewards later—and they are rewarded only if people voluntarily pay for what they've been offered. Frequently, few people choose to pay and the business doesn't last very long.

Sometimes, of course, enterprises succeed. Times change, new people move into town, tastes develop. Maybe this time it will work.

Thanks to an ever-renewing crop of such entrepreneurs, little Bozeman has riches beyond anything one could rationally expect—a store devoted exclusively to doll furniture, a nursery that supplies African violets only, two upscale kitchen boutiques, three high-toned wine shops, and a book store that carries the *New York Times Book Review* and books by Anne Tyler and Barbara Pym.

The trouble is, a lot of shops don't last very long. At any one time, the Bozeman you see is a snapshot that will never be the same again. In the past two years, I've seen restaurants, exercise clubs, food stores, clothing shops, and furniture outlets come and go.

Shops rarely go bankrupt. According to Dun and Bradstreet, all of Montana had fewer than 200 bankruptcies in 1985. But businesses change hands frequently and for little cash. A flower shop, I hear, sold for $3700 several years ago—about what it had cost a few years before.

Statistics show that at any one time, about

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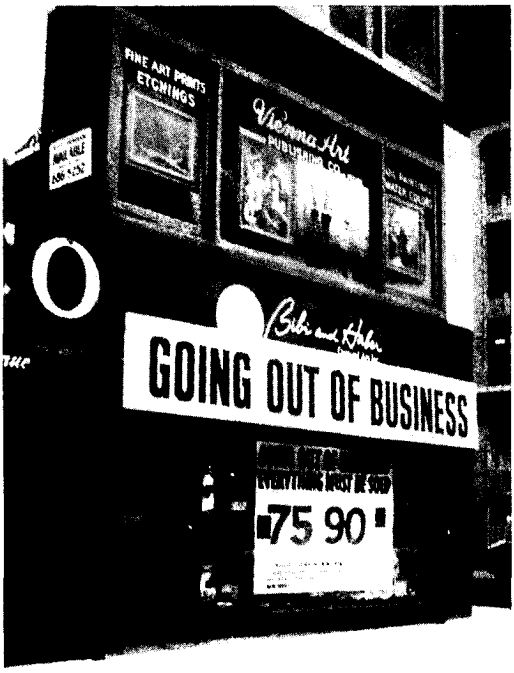

Bettina Bien Greaves

one in seven of all the businesses in our county is less than a year old or has changed hands within the year. New optimists take the place of old ones, renting out empty storefronts as others close their doors. I used to worry when I saw a "going out of business" sign, anticipating a great loss, but now I know that some other expansive soul will replace the one who lost his shirt.

An economist recently observed that we get more goods and services in Bozeman than we deserve. What he meant is that—as a result of all these eager entrepreneurs—we don't pay the full cost of the goods and services we buy. Instead, the providers pay in the form of lost profits and lost fortunes. We, the consumers, are the beneficiaries.

I haven't been able to determine whether the turnover in Bozeman is greater than in other places or just more visible. While Montana's bankruptcy rate is lower than that of the majority of states, bankruptcies are a relatively rare phenomenon everywhere, and bankruptcy figures don't begin to reflect the change of ownership that is so noticeable here.

If the turnover *is* greater here, it is because people like it here. The romance of the West and the freedom of the outdoors attract people. There isn't much in the way of employment, so people bring their own—using up their grubstake from back East to start shops, restaurants, and businesses. They run them until their patience or their money runs out.

A business can't operate over the long run unless it makes a profit. But Bozeman's experience suggests that an endless succession of businesses can operate without profits—as long as there are romantic optimists to take up where the disillusioned leave off.

Gilder says that entrepreneurs "orient their lives to the service of others." They may not mean to do it at such great expense to themselves, but as I sip chardonnay at Terrapin Station and contemplate the blackened red snapper, I am grateful. □

In Retrospect

IDEAS ON LIBERTY

The entrepreneurs are neither perfect nor good in any metaphysical sense. They owe their position exclusively to the fact that they are better fit for the performance of the functions incumbent upon them than other people are. They earn profit not because they are clever in performing their tasks, but because they are more clever or less clumsy than other people are. They are not infallible and often blunder. But they are less liable to error and blunder less than other people do. Nobody has the right to take offense at the errors made by the entrepreneurs in the conduct of affairs and to stress the point that people would have been better supplied if the entrepreneurs had been more skillful and prescient. If the grumbler knew better, why did he not himself fill the gap and seize the opportunity to earn profits? It is easy indeed to display foresight after the event. In retrospect all fools become wise.

—LUDWIG VON MISES, *Profit and Loss*

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Liberty and Individual Responsibility

by Dwight R. Lee

Liberty is both a highly valued outcome of a beneficent political economy, and an essential ingredient into it. In some respects a consideration of the role of liberty as both output and input is straightforward. Limited government, serving to maintain the legal environment necessary for an economic order based on private property and voluntary exchange, provides fertile ground for individual liberty. And the lifeblood of a political economy characterized by limited government, private property, and voluntary exchange, is the flow of information that can be provided only when individuals possess a full measure of political and economic liberty.

However, a careful examination of how a political economy based on classical liberal principles both nourishes, and is nourished by, individual liberty reveals a complicated interaction between the social institutions necessary for liberty and the exercise of liberty. The exercise of liberty, unless tempered by a responsibility that can never be imposed entirely by a force external to the ethical convictions of the individual, will with time undermine the social institutions upon which liberty depends. A careful study of the political economy of liberty contains within it a warning of just how fragile is the foundation upon which liberty stands.

Dwight Lee is professor of economics at the University of Georgia and holds the Ramsey Chair in Private Enterprise.

This essay was one of two winning entries for the North American Region in the N. Goto Essay Contest held in conjunction with the 1986 general meeting of The Mont Pelerin Society in Italy. The author would like to thank the Philip M. McKenna Foundation for financial support which helped in the preparation of this paper.

Scarcity, Rules, and Liberty

In order to examine the connections between economics, politics, and liberty, it is useful to consider first the most fundamental of economic problems. That problem is scarcity. In a world without scarcity each of us could be entirely independent of others. Each individual could exercise complete freedom in a broad range of activities and have no impact whatsoever on anyone else. Because we live in a world of scarcity, individuals must interact with one another and this interaction is shaped by rules of social conduct. Such rules impose restrictions on the activities of individuals and establish the important distinction between liberty and license. Without the restrictions imposed by such rules, scarcity itself would impose on us an even more confining set of restrictions.

Consider the fact that although scarcity makes cooperation desirable, it makes competition inevitable. Each of us wants more than he has and the only way to get more is by competing against others for control over limited resources. Competition is commonly seen as the source of a host of social ills, with the replacement of competition by cooperation suggested as necessary for social improvement. What this view fails to recognize is that competition is not the cause, but rather the consequence, of the ultimate social ill, namely scarcity. With no way to eliminate scarcity, the important question is not how to prevent competition, but how to provide rules for social conduct that motivate the type of competitive

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behavior which leads to productive and cooperative outcomes. Competition can be either productive or destructive depending on the rules that define permissible limits in our dealings with one another.

Consider the possibility of no rules, or more accurately the rule of force. Everyone would be free to do whatever he wanted as long as he possessed the power to force his will on others. In this setting, people would be forced to compete through the exercise of unrestrained brute strength and there would be no freedom in the meaningful sense of "independence of the arbitrary will of another."[1]

If one person had enough physical power he could force others to work for him without compensation, to be his slave. But the master today has no assurance that he will not be someone else's slave tomorrow.

Neither is the rule of force likely to motivate productive and cooperative outcomes. There would be little motivation to devote one's effort to the production of wealth since there would exist no protections against its forcible expropriation by others. Competing successfully would depend more on developing the skills needed for plundering and defending against plunder than on developing the skills needed to produce wealth. Even if one were able to survive in such a social environment, one's standard of living would be low. With resources being devoted overwhelmingly to predation and protection from the predatory activity of others, little would be produced and poverty would be the norm. Life in such a Hobbesian jungle would indeed be "solitary, poor, nasty, brutish, and short."

Freedom from rules is simply not a viable social possibility. In a society without rules there would be little prosperity and no genuine freedom.

Social Order at the Sacrifice of Liberty

Emergence from the Hobbesian jungle, which finds a "war of each against all," is necessary if we are to realize the benefits of a civil social order. Underlying any beneficent social order are rules that will impose limits on individual behavior. All rules serve to limit freedom of action. However, when rules are applied generally they can, by limiting the actions of each in predictable ways, expand the liberty of all.[2]

On the other hand, when they become too numerous and detailed, rules can destroy liberty just as surely and effectively as no rules. And the tendency is in the direction of too many rules. Traditionally the obsession within societies has been the horrors of disorder. With plunder, riot, rape, mayhem, and murder the common experience, the loss of liberty has been seen as the unavoidable cost of escaping disorder. The prevalent human condition throughout history has been subjugation to rigid and brutally enforced rules that specify the type and location of one's work, travel, religious practices, and even social status. The overriding problem of society has been that of maintaining order, and only the most limited amount of liberty has been considered compatible with this objective.

While a rigid social order based on detailed rules concerning every aspect of behavior may be preferred to the chaos that would prevail in the absence of all rules, the shortcomings of such a social order are apparent. The first problem is to find leaders who can be trusted with the power that has to be exercised in a totally controlled society. Such power is subject to enormous abuse. Those who have such power are in a position to advance their interests at the expense of their subjects, and will seldom be able to resist the temptation to do so. The only possible advantage an all powerful government has over anarchy is that the exercise of government power is visible. Moving from the anarchy of no rules to the detailed control of leviathan government is to substitute one thief in the light for many thieves in the night.

The cost in terms of sacrificed liberty is much the same regardless of whether it is sacrificed to anarchy or to unlimited government. One who finds himself forced to toil for the benefit of others is not likely to care who his masters are—the physically dominant brutes in the "jungle" or the politically dominant brutes in the government.

So, traditionally, the social choice appeared to have been between some combination of two

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undesirable states: the regimentation of detailed rules or the lack of social order. Society could have less of one only at the cost of having more of the other. There appeared to be no realistic hope that individuals living together in a world of scarcity could simultaneously have both more liberty and more social order. It was in the 17th and 18th centuries that philosophers began to give serious consideration to a structure of rules that offered the possibility of overcoming this social dilemma.[3]

The Rule of Private Property

It was the writings of John Locke, Adam Smith, Bernard Mandeville, and other 17th- and 18th-century philosophers that gave modern birth to the ideal of compatibility between individual liberty and social order. Crucial to this ideal was a fundamental conceptual shift regarding the role of rules. Social rules were traditionally seen as necessary to force particular outcomes which were required if a productive social order was to be maintained. Fields had to be tilled, cloth had to be woven, cattle had to be tended, and particular services had to be rendered. Concentrating authority in the hands of a ruler who could require these things to be done was seen as the only guarantee that they would be done. The fundamental insight of the aforementioned philosophers was that establishing general rules of social conduct, which ignored particular outcomes, could create an environment in which desirable outcomes emerged from the exercise of individual liberty.

Crucial to this liberating view of social order are rules which clearly define individual rights by providing assurances that individuals can plan and carry out their activities without the return to their activities being arbitrarily confiscated by others. Lacking such assurances, little motivation exists for people to be productive and no basis exists for them to interact with each other in a civil manner.

The rule of private property can now be seen as crucial to the goal of a productive social order that is compatible with, indeed dependent upon, individual liberty. The rule of private property requires that individual rights to property be well defined and subject to transfer from one individual to another by mutual consent of both parties. When liberties are constrained only by the broad limits imposed by the rule of private property, then a system of social communication and cooperation is established within which the liberty of each individual is compatible with the liberty of all. Indeed, under the rule of private property the liberty exercised by one expands the options over which liberty can be exercised by all.[4]

The social cooperation facilitated by the rule of private property, though well known to all serious students of economics, is sufficiently relevant to a consideration of liberty to deserve discussion. When property is privately owned and voluntarily exchanged, market prices emerge. These prices are the means by which each market participant communicates to all other market participants the value he places on the marginal units of goods.

Property Encourages Honesty

In addition to creating a truly impressive network of communication, private property motivates an equally impressive degree of honesty. Honesty can be expected to prevail since it is in no one's interest to be dishonest about the price he is willing to pay. The self-interest of market participants insures that they will assess carefully the value they expect to realize from an incremental unit of each good, and then communicate their desire for more only if the incremental unit is worth more to them than the prevailing market price.[5] Furthermore, each participant in this communication process is motivated to act *as if* he gives the concerns of others the same consideration he gives his own. When an individual reduces his consumption of a product in response to an increase in its price, he is in effect saying, "Others are saying to me that this product is worth more to them at the margin than it is to me, so I will consume less so they can consume more."

This system of communication and cooperation obviously does not work with perfection. However, even when full recognition is given to what has become known as "market failure," any impartial evaluation must acknowledge that the benefits derived from the rule of private property, and the derivative

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market process, cannot even remotely be duplicated by any known alternative social rule, or set of rules. Because the information and incentives generated by market competition allow each of us to interact cooperatively and honestly with literally millions of people around the globe, we are able to specialize our efforts, direct resources into their most productive uses, and thus generate enormous wealth.

Surely more important than the wealth generated under a system of private property and market exchange is the individual liberty that this system permits. The rule of private property makes it possible to allow people a large measure of liberty because this rule makes people accountable for the consequences of their decisions. Every time an individual puts a resource to use, a cost is imposed; that cost being measured in terms of the value of the resource in the highest valued alternative use. When an individual owns a resource he is fully accountable for this cost, since his use of the resource requires the sacrifice of the highest amount someone else is willing to pay for it. Given this accountability there is no harm, and indeed much benefit, in giving individuals wide latitude to use resources as they choose.

In the absence of private property rights there is a constant clamoring, often with justification, for detailed restrictions on individual behavior. Consider, for example, the fact that it is difficult in the extreme to divide up and parcel out the atmosphere as private property. As a consequence, the atmosphere is a common property resource and individuals are not held accountable for the costs being generated when they use the atmosphere as a receptacle for their auto exhaust, or industrial smoke. The result is broad public acceptance of huge Federal and state bureaucracies imposing a host of detailed restrictions on our behavior in the name of forcing us to act in environmentally responsible ways.

Eliminate the accountability provided by the rule of private property and you eliminate the very basis upon which people can be tolerant of the freedom of others. A reduction in the scope of individual liberty, with detailed directives and regulations replacing general rules of social conduct, is the certain consequence of either the inability or the unwillingness to rely on private property and voluntary exchange to order economic activity.

The Need for Government

The advantages we realize from observing the rule of private property are general advantages. The rule of private property is not designed to generate particular outcomes or to allow particular individuals to benefit at the expense of others. Rather it allows the liberty necessary to accomplish objectives that on balance benefit us all, but which no one could have predicted or programmed ahead of time. However, unless each of us refrains from attempting to infringe upon the property rights of others, the general advantages realized from an economic process which fosters both the production of wealth and a social tolerance for liberty will be diminished for everyone.

Unfortunately, even though we become collectively worse off when property rights are violated, it is possible for each individual to improve his situation by infringing on the property of others. The only parasite on a healthy organism is in an enviable position. It is true that if there is a multitude of parasites attempting to free ride on the same organism no one benefits; the organism perishes, as do the parasites. But this elementary fact provides little motivation for any one individual to cease being a parasite and turn to productive activity. Each individual recognizes that denying himself the immediate gains from plunder will do nothing to preserve the benefits derived from private property and voluntary exchange if there is a general failure to respect property rights. Indeed, in a world where everyone is engaged in plunder it would be the height of folly for an individual to confine his efforts to productive activity.

In other words, the free and productive social order based on private property and voluntary exchange is a public good; a good which when available to one is available to all. As with any public good it has to be paid for by the contributions of individuals, contributions which in this case take the form of sacrificing opportunities to infringe on the property rights of others. As is the case with all public goods, each individual faces the tempting possibility of

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free riding on the contributions of others. Since individuals know that they can benefit from the free and productive social order that is being paid for by the restraint of others, whether they restrain themselves or not, when left entirely to individual choice we can expect too little respect for private property rights.

Faced with the problem of maintaining social order, each individual is generally willing to exercise restraint if, by agreeing to do so, everyone else is made to do the same. Such collective respect for private property rights has the potential for making everyone better off and, with good prospects for enforcement, will be agreed to almost universally. Enforcement of the social rules of the game is essential here, and it is the need for such enforcement that provides the rationale for the monopoly in coercion which is granted to government.

It is the legitimate role of government to exercise its power in order to serve as an impartial referee who knows the rules of the game, observes the play of the participants, and imposes penalties on those who violate the rules. Good government, as a good referee, does not strive for particular results, but is concerned solely with facilitating the interaction of individuals each of whom is free to pursue his own purposes as long as he operates within the limits established by the agreed upon set of rules.

By enforcing the rule of private property, government is both performing as a referee and requiring that those who benefit from a free and productive social order contribute their part in maintaining it. Those who persist in violating the property rights of others will, if government is doing its job, be denied their liberty through imprisonment. This has the effect of converting the public good provided by respect for private property into a price-excludable public good. That is, those who do not pay the price are excluded from the benefits.

Up to this point the discussion has been concerned primarily with the protective or rule enforcement role of government. The government has to enforce general rules if liberty and social order are to be maintained. In this capacity the government makes no choices in the sense of weighing the benefits and costs of alternatives. It has only to determine if the rules are being obeyed and to take predetermined measures if they are not. The discussion has, however, touched on a further function of government. Public goods other than social order exist, and the government is also the institution through which members of the community decide which of these goods to finance publicly, and how extensively they should be funded. In this capacity, government is called upon to make genuine economic choices, and to engage in directly productive activities.[6]

The Need to Control Government

The government is then more than the referee in the game; it is a participating player as well. In its capacity as a player government is also subject to rules. This situation presents some rather difficult problems. The fact is that the government is necessarily exempt from certain rules that apply to all other players in the game. The government, in one sense, has the authority to violate property rights by forcing citizens to pay for certain public goods. One can argue that this is not really a violation of property rights since everyone is part of the collective process in which the decision to provide public goods is made and goods are provided in return for payments rendered. This argument notwithstanding, it remains true that government's legal power to compel people to make payments places it outside the rules that apply to private individuals and organizations.

Not only does government enter into the game under less restrictive rules than are imposed on nongovernment players, but since it is government that enforces the rules on all, it is government that enforces the rules on itself. Letting a player in any game be the judge of his own infractions creates an opportunity for abuse that few can be expected to resist. Of course, the government is not a single player but rather a collection of the members of the community. Even so, in their roles as political decision makers individuals will coalesce around certain objectives and will be tempted to take whatever action is necessary to realize their objectives. Whether acting individually or in groups, people find fewer things easier to do than justify in their minds those actions that advance their interests. As a player in the game

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the government has to be called to task for violations of the rules just as other players; but how can we be sure that the government will be sufficiently diligent in calling infractions and imposing penalties against itself?

The problem here was clearly seen by James Madison when, in arguing for ratification of the United States Constitution, he wrote:

> If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to control the governed; and in the next place, oblige it to control itself.[7]

Obliging government to control itself is no easy task. Government power, unless tightly circumscribed, creates opportunities for some to benefit at the expense of others through involuntary transfers. This abuse of government power tends to feed upon itself. First, government transfers reduce the private return from producing new wealth and increase the private return from acquiring or protecting existing wealth through political influence. This shift in relative returns draws more people out of productive activity and into political activity, which shifts relative returns yet further in favor of the latter. Second, government transfer activity is destructive of the accountability that characterizes an economic order operating in accordance with the rule of private property. As this accountability is reduced the very basis for individual liberty is also reduced and there will be increased pressure for yet broader government control on individual behavior. The power needed by government to maintain a free social order can easily become the force that undermines that order.

Our liberty and prosperity depend on general rules of social conduct. It is government's legitimate function to enforce those rules, as well as to provide a limited number of public goods. In order for government to perform its role properly, the conduct of government also has to be disciplined by general rules. It is important that these rules on government are obeyed. No society will long remain free unless they are. But how do we impose the discipline on government to get it to enforce these rules on itself and ensure that government power is not used to destroy the very liberty it is supposed to protect?

Constitutional Limits and the Limits of Constitutions

The only genuine hope for controlling government is through constitutional limits on government activity and constitutionally grounded procedures for operating within those limits. It is only by elevating these limits and procedures to the constitutional level that there can be any real prospect of immunizing them against the special interest pressures of ordinary politics.

But while the constitutional approach is the only one that holds promise for limiting government power and for making this power a positive rather than a negative force for freedom, constitutions by no means provide an easy or assured route to responsible government. An effective constitution cannot be created simply by writing words on parchment. The U.S. Constitution, surely the most effective and durable written constitution in history, has served as the model constitution (sometimes being copied nearly verbatim) for numerous political regimes around the world. Few of these cloned constitutions have been particularly durable or effective. A successful constitution has to be derived from customs, beliefs, and ethical understandings that are rooted in a pre-existing social order. A constitution can serve effectively to guard against only those abuses of government power that are widely recognized as abuses. If battered by the force of public approval of particular government practices, constitutional barriers against those practices will soon be breached. As observed by Henry Simons: "Constitutional provisions are no stronger than the moral consensus that they articulate. At best, they can only check abuses of power until moral pressure is mobilized; and their check must become ineffective if often overtly used."[8]

There can be no doubt, for example, that the success of the U.S. Constitution derived from the fact that it was the product of intense and widespread public concern for individual lib-

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erty. The 55 delegates to the constitutional convention who met in Philadelphia during the summer of 1787 were not operating from a clean slate. For at least two decades interest in securing liberty had been elevated to an obsession among the American people. According to a colonist writing in 1768, "Never was there a People whom it more immediately concerned to search into the Nature and Extent of their Rights and Privileges than it does the People of America at this Day."[9]

Edmund Burke noted before the House of Commons in 1775 that the colonists' intensive study of law and politics had made them acutely inquisitive and sensitive about their liberties.[10] An outpouring of writing, taking the form of everything from political tracts by the unlettered to celebrated contributions to political philosophy by the intellectual luminaries of the day, were manifestations of the public concerns that found expression in the U.S. Constitution. The protection of liberty was the pre-eminent concern, a concern that saw government power as a necessary evil and discretionary government power as an unmitigated evil.

There is no way of shifting to a constitution the responsibility for protecting individual liberty against the abuse of government power. Liberty will not long survive the absence of effective constitutional limits on government, but constitutional limits on government will not long remain effective in the absence of public approval of those limits.

Individual Responsibility and Political Restraint

Public approval of constitutional limits that make liberty possible depends ultimately on individuals accepting responsibility for the consequences of exercising that liberty. Responsibility has no meaning in the absence of individual liberty, but liberty has no future in the absence of individual responsibility. In the words of Hayek, "A free society will not function or maintain itself unless its members regard it as right that each individual occupy the position that results from his action and accept it as due to his own action."[11]

This sense of individual responsibility is not easily maintained. As Hayek also points out, liberty "can offer to the individual only chances and . . . the outcome of his efforts will depend on innumerable accidents, . . ."[12] When an individual suffers a setback it is always possible for him to find plausible reasons for absolving himself of responsibility. The temptation is strong to petition government for relief through exemptions from the rules of the game that apply to everyone else. The individual may recognize that if such exemptions were generalized everyone would be worse off, but still feel sincerely that in his particular case special treatment is fully justified.

When politicians begin exceeding their constitutional authority in order to provide special assistance to the few, they soon find it impossible to avoid providing special assistance to the many. The sense of individual responsibility that is the only effective bulwark against the abuse of government power will quickly break down in the face of that abuse. Few people retain a strong sense of responsibility for their actions when those around them are seeking to avoid this responsibility through political influence. The destructive dynamic here is clear. An expanding government weakens the sense of individual responsibility, and results in more demands on government and yet further government expansion. And, by increasing the opportunities for people to benefit at the expense of others, an expanding government weakens the rule of private property and thus undermines the accountability upon which individual liberty depends.

There is every reason for concern that the size of government in the western democracies has reached the point of posing a threat to the long tradition of liberty that has made these democracies beacons of hope throughout the world. Underlying this development is a fundamental shift in the way the public views government. Rather than seeing government power as a threat that is socially beneficent only when tightly circumscribed, discretionary government power in pursuit of particular ends is now widely seen as the primary force for social progress.

The surface consequences of this shift in responsibility from the individual to the state are clear enough. Expanding budgets and chronic

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deficits have become ubiquitous features of the modern welfare state, and have raised concern that this fiscal irresponsibility creates the potential for economic adversity. The most troubling thing about chronic budget deficits, however, is not their adverse economic consequences, but the fact that they reflect our inability to exercise political restraint. There is much discussion of the financial burdens our lack of fiscal responsibility is imposing on future generations. But our lack of fiscal responsibility derives from a general lack of political restraint that portends a far greater burden on the yet unborn than the obligation to pay our debts. That burden is the loss of the liberty that we enjoy today because of the political restraint exercised by our ancestors, but which cannot long survive our political intemperance.

Conclusion

Liberty is possible only when adherence to general rules of conduct makes the regimentation of detailed directives and restrictions unnecessary for the maintenance of social order. Liberty can never be license since the unrestrained use of liberty quickly and surely renders inoperative the general rules upon which it is based. The ideal setting for liberty is one in which individuals have internalized an ethic of responsibility and restraint that motivates voluntary compliance with society's general rules. It is because this ideal can never be fully realized, however, that government is granted the power to force compliance on those who would, in the absence of external restraint, threaten the general liberty by abusing their own liberty. Government power is necessary if liberty is to be prevented from cannibalizing itself.

Government power may be necessary to maintain liberty, but it is not sufficient. The ability of government to enforce impartially general rules *can* be sabotaged by the same lack of individual responsibility and restraint that makes government necessary in the first place. The ability of government to enforce impartially general rules *will* be sabotaged if the lack of responsibility and restraint reaches the point where government becomes the dominant source of discipline in society. The more necessary government is to the maintenance of the general rules upon which liberty depends, the more insufficient to this task it is sure to be.

There is no avoiding the fact that liberty will perish if the exercise of liberty is not tempered by an ethic of individual responsibility. The affirmation of this fact is the ethical responsibility of those of us who cherish liberty and understand the fragile foundation upon which it stands. □

1. The usefulness of this definition of freedom is explained by F. A. Hayek in his *The Constitution of Liberty* (The University of Chicago Press, 1960). See especially chapters 1 and 2.
2. In the words of John Locke, "The end of law is not to abolish or restrain but to preserve and enlarge freedom; for in all the states of created beings capable of laws, where there is no law, there is no freedom. For liberty is to be free from the restraint and violence of others, which cannot be when there is no law; but freedom is not, as we are told, a liberty for everyman to do what he lists. For who can be free, when every other man's humor might domineer over him?" See John Locke, *The Second Treatise of Government*, ed. by Thomas P. Perdon (New York: The Liberal Arts Press, Inc., 1954), pp. 32-33.
3. The first recorded awareness that individual liberty could be expanded under a set of universally applied rules (the rule of law) comes from the ancient Greeks, particularly the Athenians during the fifth and fourth centuries B.C. The Greek ideals of liberty were kept alive by Roman writers, such as Cicero, whose work was important to the modern development of classical liberal principles.
4. As Hayek points out, "The benefits I derive from freedom are thus largely the result of the uses of freedom by others, and mostly of those uses of freedom that I could never avail myself of." F. A. Hayek, *op. cit.*; p. 32.
5. Under certain conditions it is obviously possible for sellers to benefit by misrepresenting their products. But just as obvious is the fact that this problem is mitigated by market forces. Also, specific market arrangements tend to develop that reduce the seller's potential to gain from fraud, because both buyer and seller can benefit from such arrangements. For a useful discussion of such arrangements, and the theory behind them, see Benjamin Klein and Keith Leffler, "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy* (August 1981), pp. 615-41.
6. Buchanan makes a clear distinction between the rule enforcement role of government and the role of government as economic decision maker in his discussion of "the protective state" and "the productive state." See James M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: The University of Chicago Press, 1975), Chapter 4.
7. Federalist 51, *The Federalist Papers*.
8. Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1951), p. 20.
9. Quoted in Clinton Rossiter, *Seedtime of the Republic: The Origin of the American Tradition of Political Liberty* (New York: Harcourt, Brace, and World, Inc., 1953), p. 362.
10. See Gordon S. Wood, *The Creation of the American Republic, 1776-1787* (Chapel Hill: The University of North Carolina Press, 1969), pp. 4-5.
11. Hayek, *op. cit.*, p. 71.
12. Hayek, *op. cit.*, p. 71. While acknowledging here the obvious fact that no one can be in complete control of the outcomes that affect him, Hayek continues with the observation that when an individual has to accept responsibility for those outcomes, "it forcefully directs his attention to those circumstances that he can control as if they were the only ones that mattered."

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The Ethics of Entitlement

by Hans F. Sennholz

Entitlement programs—government taking income and wealth from some citizens and transferring it to others—are a fairly recent development. The U.S. government assumed the task only two generations ago when Congress introduced progressive taxation and, soon thereafter, launched systems of old age insurance and unemployment compensation. Since then, social pressure, sustained by strong moral emotion, has caused all administrations to pursue the ideals of a more equal distribution of wealth.

From its very beginning many economists have strenuously opposed all political efforts at redistribution. They point not only at the tremendous rise in economic well-being of all social classes, including the poor and disabled, long before governments embarked upon income redistribution, but also at the futility of all policies of redistribution. The working and living conditions of American workers, they contend, were the best in the world long before New Deal legislators passed labor laws. In the U.S., they remind us, even individuals on public assistance always have lived better than their peers in most other countries.

American economic history clearly attests to the tremendous productivity which a system of economic freedom unleashes. Mindful of the phenomenal improvement in the living conditions of every citizen of a free society, of the reduction in human mortality rates and the great lengthening of life expectancy, the foes of redistribution proudly conclude that unhampered economic freedom is most virtuous and moral. The system of social organization that builds on freedom is in complete harmony with the calls and imperatives of ethics.

These economists are unalterably opposed to political intervention because it springs from politics, builds on verdicts and interpretations of judges, and depends on brute enforcement by police. It runs counter to the inexorable laws of human action and, therefore, brings forth the very opposite of what it sets out to achieve. It hampers economic production, discourages individual effort, stifles economic progress, and creates social and economic classes whose self-interests are irreconcilable. Government intervention on behalf of one social class against another not only is illogical and ineffective, but also highly immoral. It defies the eighth Commandment—Thou shalt not steal—and violates the tenth—Thou shalt not covet anything that is thy neighbor's. It is bound to bring poverty, frustration, quarrel, and strife.

The advocates of redistribution remain undaunted by such rejoinders. They reinterpret and reject the evidence and cling to doctrines and theories of their own. They raise the question of goodness and desirability of redistribution for the benefit of the greatest number. Searching for fairness and brotherly love, they pursue two distinct ideals: the removal of human want and suffering through the use of economic surplus, and the abolition of the great inequality of means among the several members of society.

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The Removal of Want

Many redistributionists like to give vivid descriptions of the sad conditions of impoverished and destitute members of society. They point at the chronically unemployed and underemployed lacking money or means for an adequate existence. They wax eloquent about their fellowmen who are abjectly and conspicuously poor, and who suffering hunger and want due to misfortune, are in urgent need of assistance. After all, man has a moral obligation to help his unfortunate fellowmen. This duty rests squarely on the Judeo-Christian ideal of brotherhood that makes every man his brother's keeper. To act in accordance with the standards and precepts of Judeo-Christian codes of behavior is to be a Good Samaritan.

A helper and benefactor to the unfortunate and poor, the Good Samaritan binds the wounds, nurses the sick, and helps them get back on their feet. He does not call for government programs that make poverty a permanent social institution playing a central role in politics. He does not depend on progressive income taxation, nor on poverty administrators consuming the lion's share of the poverty budget, or poverty politicians enacting minimum wage laws, occupational licensing, and union power and privilege. To be a helper in need is to lend a friendly hand to a needy person; it is personal effort and sacrifice.

In order to pool their efforts and maximize their effectiveness, Good Samaritans may want to cooperate with each other in church congregations and other charitable organizations. But they must be ever mindful that any delegation of charitable obligations may reduce the quality of charity and, in the end, deny it altogether. To rush past a poor man who fell among thieves, and later send a few dollars to a world relief organization, is to pass by on the other side, like the priest and the Levite. The Good Samaritan does not ride on, but places the victim on his own beast, brings him to an inn, and takes care of him.

The advocates of redistribution ride on, pointing at the pitiful conditions of the laboring classes during the 18th and 19th centuries, and hailing labor legislators and labor organizers for having brought about remarkable improvements. They pin their faith to politics and labor unions. Unfortunately, both are utterly incapable of improving the economic conditions of all laborers. If they could, the poverty of Africa, Asia, and Latin America could be eliminated by simply passing more laws.

Actually, neither foreign governments nor the U.S. government can improve the lot of working people. Economic conditions spring from and depend on economic production. To improve labor and living conditions is to increase labor productivity. It requires a will and courage to work, to save and invest, and respect for private property in the means of production.

The redistributionists ride on, calling for the distribution of surplus wealth and pointing at more affluent members of society. They are aware that the moral obligation to help the poor and needy rests most heavily, although not exclusively, on the wealthy. But they are grossly misinformed about the magnitude and nature of the surplus wealth that is available for redistribution. In a commercial and industrial society nearly all personal wealth consists of means of production affording jobs and providing consumer goods for the people. The great wealth of an American billionaire consists of oil wells and refineries, means of transportation and communication, founder's stock and growth stock, debenture bonds and mortgage bonds. To seize his productive assets and consume them is to reduce labor productivity, lower wage rates, and aggravate the plight of the poor. It is counterproductive no matter whether it is exacted by progressive income taxation or confiscatory estate levies.

The Equalization of Incomes

Many redistributionists nevertheless favor progressive taxation because they are more concerned about the inequalities of income and wealth than the alleviation of poverty. They are troubled about the sorry conditions of the unemployed classes; but they are even more apprehensive about the unequal distribution of wealth. It is highly improper and unjust, they argue, that some people have less than is necessary while others have so much more. Some individuals suffer hunger and want while others

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dwell in idle luxury; the poor live in alleys and cellar ways while the rich frequent nightclubs, casinos, and horse races. In fact, it is scandalous that so many should live in dire need while others indulge in "silly" expenditures. This is why many redistributionists favor a floor beneath which no one should fall and a ceiling above which no one should be permitted to rise.

Redistribution is supposed to bring forth a righteous society—to overcome the evil of want by suppressing the evil of luxury.

It is a popular habit of speech to call "just" that which people desire and "unjust" that which they disapprove. They clamor for economic equality in the name of justice although justice actually demands inequality. Justice means due reward or treatment. It grants individual rewards proportionate to individual effort and assigns to every individual the fruits of his labor. It is therefore reasonable to conclude that justice is not served by compulsory equalization of incomes, and that, contrary to public opinion, our present society engaged in redistribution by political force is not a just society.

The forces of equalization do not spring from justice, but from two absolute disapprovals by public opinion makers: the unrightness of hunger and want, and the unrightness of luxury. Redistribution is supposed to bring forth a righteous society. Sacrificing nothing of value, it is to overcome the evil of want by suppressing the evil of luxury. It is to correct one bad pattern of life—poverty—by the suppression of another bad pattern—luxury.

Egalitarians are ill informed about the quantity of idle wealth that can be seized and distributed. As mentioned above, great personal wealth consists primarily of productive capital, the expropriation and consumption of which reduces labor productivity and labor income. Surpluses consisting of idle luxuries in the hands of the rich are inadequate to raise lower incomes to a desirable level. The pursuit of equality, when conducted in earnest, therefore involves the lowering of all incomes, even those of skilled workers and lower-middle-class producers. In the end, policies of income equalization merely rearrange income horizontally; they do not, as is commonly believed, redistribute much income and wealth from the rich to the poor.

Redistributionists like to base their case on "the economics of welfare," which teaches that a loss of the last unit of income of the affluent is but a small sacrifice; but the same unit in the hands of the poor amounts to a substantial improvement. Professor Arthur Pigou states it most succinctly: "It is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfactions."[1] Professor Abba Lerner repeats the principle in an academic garb: "Total satisfaction is maximized by that division of incomes which equalizes the marginal utilities of income of all the individuals in the society."[2] In the end, he and his welfare colleagues arrive at the conclusion that "the probable value of total satisfactions is maximized by dividing income evenly."[3]

Victims of Transfers

It is difficult to fathom the inner-direction that leads these professors to such popular though erroneous conclusions. But it can readily be seen that the utilities of income of different persons cannot be measured with a common rod. No one can measure the utility of the last dollar of income of one person and then compare it with its utility in the hands of another person. But we do know that the intensity of the dissatisfaction due to loss of income and sudden lowering of levels of living may be far greater than the satisfaction from receiving largesse. The victim of the transfer process may be more indignant about the loss than the beneficiary is cheerful and contented about his gain. Psychologists warn of the violent, socially disruptive discontent of individuals who are suddenly deprived of their customary ways of life. In fact, being victimized by unjust policies

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that depress some people at the expense of others may create the emotional ingredients from which revolutions are made. The wrath of the victims may be the spark that ignites the powder keg which is the transfer system.

In democratic societies with a long tradition of majority rule, the dissatisfaction of the victims does not readily ignite the political powder keg as long as the transfer beneficiaries outnumber the victims. The minority is accustomed to living by the decisions of the majority, not because they are believed to be fair and just, but because submission safeguards the peace. To rise and rebel against it would mean conflict and violence to which the friends of democracy are unwilling to resort. However, throughout the nondemocratic world accustomed to political conflict and rule by brute force, attempts at income redistribution often lead to violence. The political minority that is to be sacrificed to majority entitlements search for ways to escape or, when all avenues of escape are barred, to strike back at the majority; acting through juntas of colonels and generals, for example, it may seize political power and establish its own transfer system.

In democratic societies the dissatisfaction caused by loss of income can be observed in the political opposition to measures of redistribution. Successful opposition denotes an excess of dissatisfaction; token opposition signals continuing support for redistribution. Successful resistance may reveal that most voters now see themselves as victims rather than beneficiaries; token opposition may signal voter belief that redistribution continues to benefit them. It should be borne in mind, however, that the relative strength of both the transfer and the anti-transfer party is affected not only by their personal gains or losses, but also by considerations of moral imperatives. Even the victim of redistribution may at times cast his vote for an entitlement if he deems it moral and righteous; similarly, the beneficiary may vote against it and refuse to accept it if he believes it to be wrong.

Unheeded Consequences

Most of the time the beneficiaries can be expected to press for redistribution in disregard of its effects on society. They blithely assume that economic activity will continue undiminished no matter what government may do to the producer, that productive capital will be created, jobs provided, and wage rates be raised regardless of the exactions from savers and investors. Obviously, such assumptions spring from wishful thinking and economic daydreaming. Redistribution that seriously aims at equality tends to retard economic progress, brings about stagnation and recession, and, in the end, leads to universal scarcity through capital consumption.

In an unhampered market order many highly talented individuals are led to serve the economic needs and wants of others.

Redistributionists who refuse to see such basic effects also are oblivious to more subtle effects that tend to render redistribution counterproductive. Three such effects deserve immediate attention.

First, confiscatory tax levies may cause individuals with exceptional energy and ability—the entrepreneurs and captains of industry—to leave economic life and pursue other vocations. In an unhampered market order many highly talented individuals are led to serve the economic needs and wants of the people. In the service of consumers, who are the sovereign bosses of the market order, entrepreneurs are free to apply their energy and ability to try to revolutionize and reorganize every phase of production. In freedom, inventors like Eli Whitney and Thomas Edison, innovators like Andrew Carnegie and Henry Ford, and organizers like Edward Harriman and John Pierpont Morgan, are led to mobilize economic resources and direct them toward serving the public. The vital few, instead of ruling men, are led to serve men.[4]

Individual freedom reveals inequality in productivity, which brings forth inequality in income. Confiscatory tax levies designed to redistribute income and wealth not only repress individual freedom but also run counter to human nature. They are supposed to achieve an unnatural state of affairs. Moreover, they pre-

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vent many gifted people from pursuing their careers in economic life, and cause them to seek self-fulfillment in the arts and sciences, in civil service or military careers, in the pursuit of national, racial, and political objectives. They may force creative people to surrender economic management to politicians and bureaucrats. The detrimental effects on economic well-being need not be elaborated.

Second, redistribution deprives society of the great variety of life styles and cultural and intellectual activities that spring from different life styles. It brings about a radical shift in demand and production. The demand for and production of popular goods and services is bound to rise; production for the affluent classes is destined to shrink. In particular, the production of artistic and intellectual goods is likely to be affected; operas, symphonies, chamber music, painting, sculpturing, and other manifestations of the fine arts face dwindling markets. In fact, man's cultural aspirations may suffer serious losses unless government provides a new superstructure of cultural activities, maintaining and promoting common interest through public libraries, theaters and opera houses, and public centers of fine arts. Government must grant scholarships and fellowships to artists and scientists, and otherwise provide generous support for creative activities normally sustained and promoted by people in higher income brackets. Government must make investments in individual talents that render services in medicine, engineering, and education. At great expense it must create and maintain a new elite that will serve the masses. It must repair the social damage inflicted by the reduction of upper- and middle-class incomes.

Government repair efforts, however, not only necessitate higher public expenditures and taxation but also run counter to the very purpose of redistribution—the maximization of individual satisfactions through income equalization. In search of the "good society" all such efforts promote the production of goods and services for which there is meager demand, and thereby bring about the very allocation of resources that generated the clamor for redistribution. If income equalization maximizes the sum of want satisfactions, all state expenditures in support of cultural and professional activities blatantly disregard the maximization principle and openly contradict the very rationale of redistribution.

Third, the redistribution process as well as the repair efforts that may follow place politicians and government officials in the center of the economic order. To seize income and wealth from individuals with higher incomes, politicians must pass laws, judges must adjudicate them, and policemen enforce them. Having amputated the higher incomes, which provide the savings and investments for economic growth, politicians and officials must assume the saving and investment functions. When desirable social activities are declining they must provide for and preside over these activities. When personal income becomes insufficient for expensive training and education they must select the trainees and provide the necessary funds. In every case redistribution leads to an expansion of the powers of government and of the individuals who run the government—politicians and officials. Redistribution requires an apparatus of redistribution, which extends the scope of government; the consequences of redistribution in turn necessitate repair efforts that call for more government, making politicians and government officials the primary beneficiaries of redistribution.

Pure redistribution would require a simple negative income tax that hands lower-income people that which is taken from higher-income people. But this is not the redistribution that is practiced. Politicians and officials act as trustees of the "underprivileged," assigning the burdens and doling out the benefits. And, to avoid creation of a class of unproductive wards, whose civil rights would soon be curtailed, the entitlement benefits are extended to all members of society. Social Security and Medicare benefits are extended to the rich and the poor alike, which significantly raises the expenses of redistribution. The extension of benefits to all in turn warrants an extension of tax exactions from all. In the end, low income earners along with individuals in high income brackets tend to contribute more to the system than they receive from it; after all, the legions of administrators need to be supported.

The great beneficiary of the redistribution ideology is government. It helps government to

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break down the age-old resistance of taxpayers to a larger government share of economic production and income. For centuries the people had resisted successfully and, in many cases, had risen in revolution against governments seeking to increase their shares. But this resistance that gave power to parliament and brought forth political liberty, crumbled under the onslaught of the redistribution ideology. It shattered the solidarity of taxpayers through increasing inequality of treatment, deductions, allowances, credits, and positive benefits for individuals in lower-income brackets. Unfortunately, it also divided society into two social classes: the beneficiaries of transfer who are calling for ever more, and the victims who submit unwillingly. It could hardly fail to injure social peace and harmony.

Envy or Error?

The conflict society does not spring from the desire to improve the economic and social standards of its poorer members. It is the bitter fruit of egalitarian ideals that call for equalization of incomes through the agency of the redistributing state. But these ideals do not necessarily reject and condemn all economic inequality; they find fault only with the income and wealth of entrepreneurs and capitalists. Egalitarianism does not necessarily flow from envy and covetousness, but rests precariously on economic error that perceives capitalist income as exploitative.

Throughout the ages man as member of the body politic has readily accepted the pomp and splendor of his ruler. He may have opposed his king when the royal exactions became oppressive and his policies reckless and foolish. Subjects may have risen in open rebellion when the yoke became unbearable. But if we read history aright, the people were rarely, if ever, led to rise against their duly established government for reasons of envy or covetousness. The most diverse societies have tolerated economic inequality quite willingly.

Surely many people are uneasy and envious of the attainments of others. But few Americans resent the magnificent spectacle of government grandeur displayed in Washington, D.C. Every year millions of people are drawn to the temples of politics that fill them with awe and admiration. They do not begrudge their leaders the luxuries of political offices; they cheerfully approve of the imperial conditions of their President, their senators, and their representatives. Similarly, most Americans do not covet the million-dollar incomes of their favorite artists, entertainers, singers, and athletes. They love and cherish their favorite film stars, crooners, and quarterbacks and expect them to make a gallant spectacle of their success.

The same people who so readily accept the entertainer's accomplishment and the politician's position in the body politic, may resent the capitalist's income for being "unearned" and "unjust." They may be resentful of the fortunes earned by the manufacturer of men's shoes or ladies' stockings, of toothpaste or mouthwash. In their eyes, such fortunes are dirty lucre withheld from workers and gouged from consumers. They cling to popular notions that give rise to the doctrines of egalitarianism and to policies of redistribution.

Intellectual consistency is no great concern for redistributionists. In their own economic lives they often choose and prefer essential want satisfaction over entertainment and politics, allocating more of their incomes to the consumption of shoes, stockings, toothpaste, and mouthwash than to baseball and football, and casting their economic votes for the best producers. As members of the body politic, however, they would like to negate their own economic actions and redistribute the producers' income.

Ignorance deprives man of his freedom, for he does not know what his alternatives are. He will not choose that which he has never heard of. This is why economic education is so important. It refutes all egalitarian ideas and the demand for equalization of incomes, for they do not lead to economic equality, but to ever more inequality, political power, and social strife. □

1. Arthur C. Pigou, *Economics of Welfare* (London: Macmillan, 4th ed., 1932), p. 89.
2. Abba P. Lerner, *The Economics of Control* (New York: Macmillan, 3rd ed., 1947), p. 29.
3. *Ibid.*, pp. 29-32.
4. Jonathan Hughes, *The Vital Few* (New York: Oxford University Press, 1986), p. 121 *et seq.*

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Morality Laws = Majority License

by Robert James Bidinotto

One of the perennial criticisms of the free society is that, under laissez-faire capitalism, individuals would be allowed to engage in noncoercive, yet "immoral," behavior.

Government is the social institution which protects individual rights by serving as the final arbiter of disputes in a given geographical area, and by holding a legal monopoly on the retaliatory use of physical force. In a free society, the government is concerned only with enforcing justice by resolving questions of *individual rights*. Concretely, this means a state limited solely to banning the initiation of force, fraud, and coercion. While there are certainly many other moral issues apart from matters of rights, these are beyond the purview of a properly limited government. The state is constrained . . . so that the people can be free.

And this limitation on the power of the state is precisely what bothers the proponents of so-called "morality legislation." A strictly limited government would turn a blind eye to all private, noncoercive acts of "consenting adults." People could abuse themselves with drugs or alcohol, indulge in unorthodox sexual behavior, produce or obtain objectionable books and films, waste their lives in sordid dissipation—so long as they did not force themselves upon unwilling participants.

Allowing such behavior—critics charge—would undermine the very foundations of civilized society. They point out that political institutions rest upon a base of moral and cultural values. To permit an erosion of the ethical roots of civilized society would, eventually, cause our political institutions to rot and topple. Hence, freedom carries within itself the seeds of its own destruction. It would offer no impediments to those who would emerge from the dank recesses of society to pervert and ultimately destroy that freedom.

One need not be a prude or busybody to sympathize with the concerns of these critics. There *is* a direct relationship between the ethical status of a culture, and the nature and stability of its political institutions. For example, a culture of collectivists will not hesitate to sacrifice individuals for "public purposes." A culture of pragmatists will see no purpose in restraining its government by principles. A culture of fatalists will remain apathetic in the face of injustice. A culture of hedonists will surrender its vital political institutions for the sake of short-term gratification.

Yes, the free society must have a moral base. Those concerned about the future of liberty should realize that ethics provides an integral and indispensable foundation for their persuasive and educational efforts.

But the critics of laissez-faire are too worried and impatient about society's fate to employ only peaceful persuasion. They would erase the boundary line between "public" and "private" matters, bringing *all* questions of personal values into the public arena—to be resolved by government coercion. There would be no sphere of purely private moral matters—no area of values from which the state would be excluded.

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And in a democracy, where such matters are decided at the ballot box, *morality laws would actually mean: majority license.*

Before we proceed, some clarifications. Does excluding the state from the realm of personal morality imply state sanction of "moral relativism"? Not at all. Nor does "moral certainty" imply the right to impose one's morality by law. One may acknowledge that moral "absolutes" exist—and even be personally certain of what those absolutes are—yet still recognize the need to exclude the state from private ethical matters.

Now—why should the state be limited to mere peacekeeping? Why should it be excluded from the role of being the guardian of moral values?

First of all: *whose values* are to be imposed? Which theory or standard of personal morality would be elevated to the status of public morality?

The free society must have a moral base. Those concerned about the future of liberty should realize that ethics provides an integral and indispensable foundation for their persuasive and educational efforts.

Even at the theoretical level, it is impossible to get unanimity, or even a loose consensus, concerning a standard of "the good." When we descend to the concrete level of imposing, not just a standard, but specific *values* themselves, the exercise becomes virtually hopeless. For even if society could agree to one abstract theory or standard, there are countless potential *interpretations* of each of them.

Inevitably, to "impose values" must mean: to impose *somebody's* values, and to exclude all others. But again—whose values? Who decides? By what method? By what right?

This brings us to the central problem. To "legislate morality" is to invert the proper relationship between force and ethics. *To let the state govern morality, is to allow "might" to govern "right."*

In the face of conflicting views of "the good," those empowered to "legislate morality" would resolve all value issues, not by demonstration, but by coercion. They would not be required to prove that their views were correct. They would not be constrained by "the consent of the governed" . . . or by Constitutional checks and balances . . . or by the principle of "equality before the law"—or by the Bill of Rights. As the final, unchecked arbiters of morality, they would be certain to equate "the good" with their desires. Theirs would be government by fiat. "Might" would not simply enforce "right" behavior; "might" would, in the final analysis, *decide what "right" means.*

Legally, this would negate the very principle of the Rule of Law. Ours would become a nation not of laws, but of men . . . of men above the law.

And the final arbiters of values would be above morality, too. Who would hold *them* morally accountable? Ironically, the alleged motive of those who would legislate personal morality is that they wish to reintroduce "moral absolutes" into a decadent culture. But to advance "moral absolutes" by the arbitrary method of "might makes right" is a transparent contradiction.

The advocates of morality legislation would undoubtedly reply that this argument goes to extremes; that they are not advocating a dictatorship; that they believe in democratic principles; that a majority of citizens agree with them on such issues as outlawing drugs and banning pornography; and that all they wish to do is to codify the popular will.

But this does not solve their problem. Even if democratically (not despotically) imposed, *morality laws equal majority license.*

Let us assume that there was virtual unanimity of opinion concerning the evil of some private, noncoercive act. Were the majority to enact a law prohibiting such an act, it would not be enshrining "moral absolutes" in the legal code; quite the contrary. Rather, it would be declaring that morality is a numbers game; that "the good" was to be determined by majority vote; that mere force of numbers decides

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moral questions in society; in short, that "might makes right."

Are There Absolutes?

Voting on moral standards, purposes, virtues, values, and choices means that these are not "absolutes," but socially relative—i.e., dependent upon the outcome of an election. (And remember that in most elections, only a small fraction of eligible voters decides the outcome.) In any event, voting on moral issues reduces "moral absolutes" to a matter of transitory public opinion, while elevating public opinion to absolute status.

But surely—replies the advocate of morality legislation—there are some issues of ethics in which it can be scientifically demonstrated that a given choice is utterly destructive of the individual's life and values. Why could we not pass laws concerning behavior that, say, is demonstrably self-destructive?

There are two possible alternatives here. Either the "victim" knows that his behavior is self-destructive, or he does not. If he does not know, the "problem" can be presumably solved, not with a law, but by simply informing him of the facts. If he does know—that is, if he *intends* to behave self-destructively, while not jeopardizing others—that is his right. To declare otherwise is to make the curious claim that his life is not his to dispose of, but that it is the property of others.

Thus, even scientific proof of the self-destructiveness of an activity is irrelevant. For instance, the detrimental effects of drug abuse on the consumer of narcotics is an established fact. But to declare that adults should be prohibited access to such drugs, is to proclaim the principle that some people may not make value decisions, while others may arrogate to themselves the power to make value decisions for them. That still enshrines inequality in the law, elevating some people over others, allowing the legally elevated to treat the legally subordinate as property. Hence, while the harm to the individual may be objectively demonstrable, outlawing voluntary, self-destructive activity still injects arbitrariness into the legal system.

Let us, then address an argument to those who would impose their moral codes on others. Moral principles are either demonstrable, or they are not. If they are, then they can be effectively conveyed by noncoercive persuasion. If they are not, they are arbitrary; and if enacted into law, they will only increase public contempt for the legal system, while adding chaos to the lives of law-abiding citizens.

One suspects that those who must force their values on others, do so because those values would otherwise suffer in open competition in the marketplace of ideas.

Finally, a point of clarification. I am not arguing that every moral code requires liberty for its implementation, nor that every moral code is compatible with individualism and laissez-faire capitalism. As history demonstrates, there are any number of moral systems perfectly compatible with force; some, indeed, have been little more than rationalizations for despotism.

But the relative compatibility of various ethical systems with human freedom is another subject. The point here is more narrow. It is simply that those who would use government to *impose* "moral absolutes" are deceiving themselves. In each case, they are establishing, not universal absolutes, but personal caprice. □

Coming Next Month . . .

- **"How the Fed Fooled Farmers" by Jay Habegger**
- **"Laissez Faire as a Development Policy" by John Semmens**
- **"Wilderness Cathedrals and the Public Good" by William C. Dennis**

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Women and the Market

by Sam Staley

The U.S. economy is faced with one of the most difficult challenges of the century. A dramatic shift in the labor market has occurred during the 1960s, 1970s, and 1980s which significantly affects the direction and composition of the hi-tech, hi-touch economy of the information society. The huge influx of working women over the past two decades has created enormous economic and political pressures, pushing the issue of discrimination to the forefront of political and economic debate once again.

As a group, women are unquestionably discriminated against in the market place. Women often have fewer skills, are more inexperienced, and more likely to leave the labor market than are men. Further, men often preclude their advancement, whether consciously or unconsciously.

Faced with these impediments, what are the most effective means for women to achieve economic success? While many have chosen political solutions, legislated approaches to the problems of discrimination have failed. Laws rarely change fundamental attitudes and prejudices. At the same time, however, a growing number of women are trying a much more effective approach: entrepreneurship.

In a market economy, economic development can only occur through initiative, innovation, and, above all, risk taking. Contrary to popular belief, the market has a long and successful history of taking people of all ethnic and racial groups from "rags to riches."

The market, however, works in a subtle way that few people fully comprehend. A market economy is driven by entrepreneurship which thrives on providing a socially desirable product efficiently and effectively. It is only through the utilization of means compatible with the market that any person or group can succeed.

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The Current Economic Challenge

Women now make up 44 per cent of the work force. The number of women re-entering the work force soon after childbirth rose to 57 per cent in 1985. This feminization of the work force has dramatically altered the scope and dynamics of the economy, and, contrary to popular belief, the economy is responding accordingly. Business increasingly realizes that it must cater to the needs of women if it is to remain competitive, and herein lies the real opportunity for economic progress.

"One of the most interesting things I see happening in the late 20th century is that the corporation is changing because women are starting to participate in it," observes economist Jennifer Roback. "Women's greater participation benefits small companies at the expense of big ones. Big companies are not willing to be flexible about child care and maternity leave and home emergencies. Small businesses can handle things like that, and, in particular, your own business can handle it."[1]

Twenty-four per cent of all the businesses operating in the United States are owned by women, accounting for $98.3 billion in receipts in 1982. While these businesses are still concentrated in low income service companies (over half earn less than $5,000 per year), their

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representation is increasing. The 1986 White House Conference on Small Business in Washington, D.C., serves as one indicator: participation by women doubled from 1980 to 35 per cent of all delegates.

More important, however, is the service orientation of these businesses. Service-oriented businesses, which are becoming increasingly important in the innovative information society, offer unique opportunities for many women. First, they often are labor intensive, requiring little capital but many hours of work to succeed. Second, they can be started on a small scale and built over time, utilizing skills that can be developed in the process. Third, they often do not require, immediately, the complete commitment of the entrepreneur. These businesses can be started relatively easily and have extraordinary possibilities for growth.

Ironically, these types of businesses have often fueled the development of other minority groups facing severe discrimination. Asian-Americans, for instance, started out in labor-intensive industries such as laundries and restaurants. Indeed, the experiences of other groups lacking suitable job skills, experience, and capital indicate that the process of entrepreneurial development applies to many sectors of the population.

The Legacy of the Market: Ethnic Enterprise

Traditionally, economic success for minority and disadvantaged groups has come through business not politics. Jews, Asians, blacks, and Hispanics have all succeeded in the American economy through employment in small businesses or entrepreneurship, whether in storefront shops or professional careers. No group has been successful in using the political system to affect significantly their relative income. In fact, "some of the most dramatic rises from poverty to affluence in the United States have been among groups who did *not* attempt to use the political route to economic advancement . . . ."[2]

Table 1 provides statistics about various ethnic groups and their relative family incomes. Notably, the groups with the highest family incomes have faced severe discrimination based on their ethnicity and race. However, racism has not prevented the Jews, Japanese, or Chinese from becoming economically successful in the United States. Furthermore, these groups have not been favored by government intervention.

Table 1: Family Income by Ethnic Group

Ethnic Group	Relative Income (per cent of national average)
Jewish	172
Japanese	132
Polish	115
Chinese	112
Italian	112
German	107
Irish	102
Filipino	99
West Indian	94
Mexican	76
Puerto Rican	63
Black	62
American Indian	60

Source: Sowell, p. 8.

The key element of economic success for these ethnic groups has been their relative concentration in business and enterprise. Indeed, aside from the well-known position of Jews in business, the Chinese and Japanese have a long history of entrepreneurship stemming from their immigrant background in the United States. "[T]he social histories of Americans of Chinese and Japanese descent," writes sociologist Ivan H. Light, "offer empirical illustration of the manner in which poverty, discrimination, and ethnic visibility stimulated business proprietorship among some disadvantaged immigrants."[3] For example, almost 12 per cent of Koreans are self-employed, while 7.9 per cent of all Japanese and 7.6 per cent of all Chinese are self-employed. These percentages are well above the national average of 6.8 per cent.[4] Despite extreme discrimination against Asian-Americans in the past, they remain one of the most upwardly mobile income groups in the United States.

The recent experience of Korean immigrants most dramatically illustrates this phenomenon. Ethnic and immigrant businesses provide an essential alternative to the general labor market.

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Suzanne Boughton, owner-operator of PSG Typesetters, Ltd.

Table 2: Ranking of Women-Owned Businesses

Personal services	419,113
Real estate agencies	225,551
Health services	128,389
Restaurants	66,811
Special trade contractors	47,219
Food stores	37,635
Apparel and accessory stores	29,130
Wholesale trade, non-durable	22,231
Total Women-Owned Businesses:	2,884,450

Source: 1982 U.S. Economic Census[13]

Self-employment helped Korean immigrants overcome tremendous disadvantages in the work place and attain more secure work at higher incomes, accelerating the pace of social mobility.[5] Immigrants face many of the same disadvantages as native born minorities (including women), and, in many cases, the discrimination is more severe: "Immigrant doctors, pharmacists, engineers, or attorneys may pump gasoline in service stations, but they are looking for escape from this level of employment. Hence, their labor force disadvantages (poor English, unrecognized professional degrees, under- and unemployment) confer on educated immigrants a motive to open their own businesses."[6] Further, these groups maintain a propensity toward self-employment through successive generations.[7]

For minorities, especially immigrants, the market has allowed them to take advantage of their undervalued human capital. Instead of attempting to overcome institutional barriers to social mobility, many minority groups have chosen the entrepreneurial route to success. Asian-Americans in particular have much higher rates of self-employment than other groups.[8]

Women and Economic Change

The market provides a remarkable opportunity for women as well. When people shop for services in the Yellow Pages, or buy a product on the supermarket shelves, they do not check the ethnic background or sex of the producer.[9] Sexual discrimination, like racism, cannot be legislated away.[10] By participating in the market, and taking advantage of the renewed trend toward small companies and entrepreneurship, women will make more headway against discrimination than at any other time in their history.

The problem, however, is much more complex than getting more women into business. Corporations, with their hierarchy of power-brinksmanship, allow men to exercise their prejudices to the detriment of women. While some have made progress in hiring women, large corporations often institutionalize impediments to progress. Furthermore, men may not realize that they are discriminating. In a recent *Woman's Day* survey 81 per cent of the women polled felt that men underestimate them in the work place.[11] Since men often dominate decision-making in larger corporations, women are often fighting the perceptions of their male supervisors.

Yet, with the current trend toward an economy driven by smaller corporations, the prospects for women are looking better. The 1980s is hailed as the decade of entrepreneurship, and companies such as Federal Express and Apple Computer successfully challenge corporate giants. Deregulation has sparked entrepreneurship in many sectors of the economy, and this trend has clear implications for the role of women.

Jennifer Roback notes that "We are starting to observe a strengthening of the smaller firm as opposed to the larger firm *because* the small

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firm can accommodate the other needs that women have in their lives."[12] Women are beginning to dominate the labor supply, and newer and smaller firms have the managerial flexibility to more effectively utilize female workers. As Table 2 illustrates, women are currently concentrated in flexible, service-oriented firms. Many, such as personal services, allow for future growth, building from the ground floor up.

Despite their large numbers, however, women are still relative newcomers to the economy. In the past, significant economic progress has not occurred for a generation or two. While this may seem slow, no other system has permitted faster change or growth for any particular group. In fact, the free market is often derided for the pace of economic and cultural change inherent in it as a social system.

Implications

The influx of women, like immigrants in the late nineteenth century, has created an imbalance of resources in human capital. This condition, however, merely sets the creative and innovative forces of the market in motion. As long as it is free to change, the economy will adjust. In effect, the market economy is driven by a "causal loop" between resources and human wants.[14] The evolution of the market society has created institutions which distribute natural resources (including people, human capital) so that the most valued wants of society are met.

In achieving this, the market has developed an amazingly diverse, decentralized economic system unparalleled in the modern world. "This diversity in the forms of economic life . . . is important not for its own sake but because it is an earmark of successful adaptation and full utilization of the resources available. The thematic terms are thus *autonomy, experiment,* and *diversity.*"[15]

Women, like various minority groups, may find that their talents, skills, and needs are best met outside the corporate world and in the realm of small business. By moving into entrepreneurial enterprises, they are more likely to expand their own opportunities and open up the road to economic progress. The ultimate result of this challenge is a more competitive and more productive society.

Rather than attempting to find political solutions, then, women should be moving into the market through their own business ventures. Instead of regulating policies and practices of existing businesses, women should be setting the standards for future generations by providing more efficient and effective alternatives in the market. Instead of mandating the approval of men in existing corporations, they should be maximizing their effectiveness by providing a better product cheaper within an economic climate suitable to their needs and wants.

Thus, the needs of women in the market may be better served by deregulating the economy —by allowing people to provide capital to new and "risky" businesses without the burdensome rules of the Securities and Exchange Commission or potential regulation of the Federal Trade Commission. The key to the success of women and minorities is access: protecting the ability of all people to enter the market and provide products that consumers desire without paternalistic and counterproductive restraints perpetuated by the state. □

1. *Cato Policy Report,* Volume VIII, No. 4, July/August 1986, p. 9.
2. Thomas Sowell, *Markets and Minorities* (New York: Basic Books, Inc., 1981), p. 106.
3. Ivan H. Light, *Ethnic Enterprise in America: Business and Welfare Among Chinese, Japanese, and Blacks* (Los Angeles: University of California Press, 1972), p. 5.
4. Ivan H. Light, "Immigrant Entrepreneurs in America: Koreans in Los Angeles," in *Clamor at the Gates* (San Francisco: Institute for Contemporary Studies, 1985), p. 170.
5. Light, 1985, pp. 172-178.
6. Light, 1985, p. 175.
7. Light, 1985, p. 169.
8. See Table 1 in Light, 1985, p. 170 for a breakdown of statistics on self-employment by ethnic groups.
9. For a readable explanation of the relationship between the market and economic discrimination see Walter Williams, *The State Against Blacks* (New York: McGraw-Hill Book Company, 1982), chapters 1, 2 and 11.
10. For a clear, concise discussion and analysis of the relationship between government, law, and discrimination see Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: William Morrow and Company, Inc., 1984), chapters 1, 2, 5 and 6.
11. Reported in the Dayton, Ohio *Journal Herald,* June 26, 1986, p. 25.
12. *Cato Policy Report,* p. 9.
13. Reported in Dayton, Ohio *Journal Herald,* August 7, 1986, p. 30.
14. Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, Inc., 1986), p. 33.
15. Rosenberg and Birdzell, p. 33.

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Alternatives to Public Libraries

by J. Brian Phillips

Proponents of government programs often contend that the services provided by government could not be furnished by the private sector. It is in the public interest, they argue, that the government compel individuals to support these programs with their tax dollars. Among the most sacred of these programs are public schools and public libraries, supposedly the bastions of democracy.

However, such arguments ignore the lessons of history, for America's past is replete with examples of voluntary, cooperative associations which provided for the many needs of the citizenry. One of the most striking examples is the evolution of libraries in pre-Civil War America. Even today, alternatives to tax-supported libraries exist.

Early Libraries

The first settlers in America had little time for reading. Their lives were spent in a near-constant struggle for survival. Because many of the first colonists had fled religious persecution in Europe, the Bible was often the only book in the home. The first ministers and theologians to arrive in the New World brought larger collections of religious works with them.

The first private library in America probably belonged to Elder William Brewster, who brought his large private collection to Plymouth. The 400 books in his collection at the time of his death were primarily religious. The Massachusetts Bay Company sent 54 religious works to Salem to aid in the conversion of Indians. One of the most impressive early libraries belonged to the first governor of Connecticut, John Winthrop, Jr., who brought his collection of over 1,000 titles to Boston in 1631. Winthrop was a major figure in the birth of science in America, and his collection was one of the largest and most influential scientific libraries in 17th-century America.

As life in America became more secure and education improved, the range of reading interests quickly expanded. Philosophy, political science, natural science, and modern literature became popular topics. By the 1650s most estates contained at least several books. The first bookseller appeared in Boston in 1641, and booksellers thrived in that city in the last quarter of the 17th century. But in the other colonies, citizens had to resort to ordering books from Great Britain. Indeed, when Benjamin Franklin arrived in Philadelphia in 1723, he lamented the city's lack of booksellers.

Many of the large collections were bequeathed to towns and schools. But a lack of funds, proper storage facilities, and often a lack of interest, caused many of these collections to deteriorate. One notable exception was the collection of John Harvard, which became the foundation of Harvard College's library in 1638. As early as 1665, the use of taxes was proposed as a means of providing library services for the town of Dorchester, Massachusetts.

In the 1720s, Benjamin Franklin formed a group in Philadelphia called the Junto. The primary purpose of the Junto was to meet for intellectual discussion, with members presenting papers on various topics. Because of the nature of this group, references were made to a wide

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variety of books. However, the members were not always familiar with these books. In time, Franklin suggested that the members pool their collections, storing them at the Junto's meeting place. Franklin believed that "by thus clubbing our books to a common library, we should, while we lik'd to keep them together, have each of us the advantage of using the books of all the other members, which would be nearly as beneficial as if each owned the whole."[1] However, a year later, due to a lack of care, the books were separated and returned to their owners. But this experiment gave Franklin another idea.

The Rise of the Subscription Library

On July 1, 1731, Franklin drew up a proposal for what became the Library Company of Philadelphia. The Library Company soon attracted fifty subscribers paying a forty-shilling initiation fee and ten shillings per year. Chartered in 1742, the Library Company of Philadelphia became America's first subscription library, and was the model for numerous similar libraries throughout the colonies.

But the cost of joining the Library Company prohibited many from doing so. As always happens in a free market, competition arose. In 1747 the Union Library Company was formed. By the 1760s, the Amicable Company and the Association Library were also in operation. When the Library Company reduced its prices in response to the competition, the Union Library merged with the Amicable Company. In early 1769, the Association Library also merged into the Union Library. Shortly thereafter, the Union Library Company joined the Library Company, once again leaving Philadelphia with one library. However, the competition made membership more affordable and improved the library's range of works.

The subscription library concept quickly spread through the colonies. In 1733 the Book Company of Durham, Connecticut, was established. In the spirit of these libraries, the Articles of Subscription stated that:

> being desirous to improve our leisure hours, in enriching our minds in useful and profitable knowledge by reading, [we] do find ourselves unable so to do for the want of suitable and proper books. Therefore that we may be the better able to furnish ourselves with a suitable and proper collection of books, . . . do each of us unite together, and agree to be copartners in company together . . . to buy books.[2]

Because of the voluntary nature of these associations, each library varied in the conditions of subscription. Most had a yearly fee of less than one dollar. The more expensive libraries often resembled social clubs. While most libraries contained fewer than 1,000 titles, and consisted mainly of books of general interest, many were suited to particular interests, e.g., mechanics, theology, history, agriculture, science, law, medicine, or music. Essentially, the subscription library offered its materials to those who paid a fee, i.e., subscribed to the service.

In Charleston, South Carolina, a group of young men pooled their funds so that they might purchase materials printed in England. Within two years, there were 160 members, as well as an endowment. In New York City, 140 well-to-do citizens pledged five pounds each, plus ten shillings per year, to form the New York Society Library. Within twenty years the library had collected nearly 1,300 titles.

When a fire destroyed the Providence Library Company in 1758, a lottery was held to replace the burned books. Similarly, the social library of Portsmouth, New Hampshire, used a lottery to provide supplemental income.

One of the most amazing success stories is that of the Young Men's Association, founded in Chicago in 1841. Within a month nearly 10 per cent of all males in the city between the ages of 15 and 35 had joined. Subscribers were offered a choice of memberships, ranging from a one-time life membership fee of $25 to a regular membership costing $1.50 initiation fee and $2 per year. Nonmembers could use the reading room for 50 cents per month.

To satisfy the public's appetite for romance and popular fiction, many printshops and booksellers rented books for a small fee. One of the first of these rental "libraries" was established in Annapolis in 1762. That venture soon failed,

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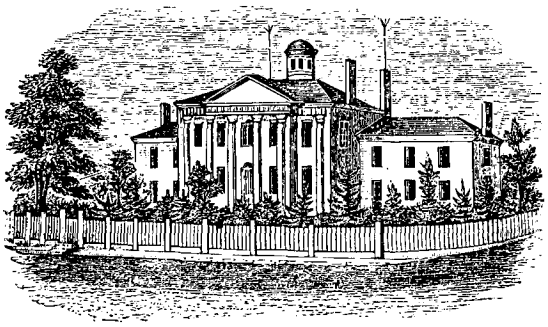

Antiquarian Hall, Worcester, Massachusetts, c. 1834. Original home of the American Antiquarian Society.

In 1812 Isaiah Thomas established the American Antiquarian Society. Thomas gave 8,000 books, $2,000, an acre of land, and 150,000 bricks to build a library for "collecting and preserving every variety of book, pamphlet, and manuscript that might be valuable in illustrating any and all parts of American history." Today, its library collections (still in Worcester) include more than 600,000 volumes, 3,000,000 issues of American newspapers, and more than 1,000,000 manuscripts and broadsides. It remains a privately endowed, independent research library.

but the idea caught on and spread to the larger cities in the colonies. This form of library, often called a circulating library, had its greatest popularity in the 50 years after the Revolution.

One of the more interesting examples of the circulating library was the "Book Boat" which traveled along the Erie Canal from about 1830 to 1850. Traveling between Albany and Buffalo, the boat would dock at towns along the way, renting its literature for two cents per hour or ten cents per day. While the circulating library certainly catered to the less serious reader, it did provide an important service.

Demise of Voluntary Association

The voluntary nature of commercial libraries made them susceptible to economic downturns, during which many citizens had to withdraw support. In turn, libraries closed their doors, leaving communities without library services.

By the mid-19th century, amid growing clamor for tax-supported schools, the idea of tax-supported libraries gained increasing support. "If a man has the right to an education," the statists argued, "then why doesn't he also have a right to the books which make that education meaningful?" It wasn't long before they had their way.

The advocates of public libraries presented, and continue to offer, a variety of arguments supporting their cause. In an attempt to gain Constitutional legitimacy, statists assert that public libraries protect our rights and liberties, as well as promote happiness. Because of the number of books purchased by libraries, they argue, more books can be published, thus insuring freedom of speech. Libraries also provide information on hobbies, travel, and the arts, which encourages knowledge of culture, and therefore promotes happiness.

However, freedom of speech is possible only in a free society, in which the initiation of force has been abolished. Freedom of speech results in ideological competition—a marketplace of ideas, in which individuals are free to support those ideas they voluntarily choose. Extorting funds from individuals to purchase books effectively makes them supporters of ideas to which they may be diametrically opposed. The result is the publication of many books of dubious quality, at taxpayer expense, which few read.

The assertion that public libraries promote happiness is, at best, ludicrous. Whose happiness? And at whose expense? And even if this claim were true, it is irrelevant. A thief could argue that robbing my house would promote his happiness, but his action is still theft and still immoral. The principle does not change if government is doing the taking.

The avowed purpose of the public library is "to serve the public. Not *some* of the public. *All* of the public."[3] This, of course, is impossible. It would require volumes of information on every imaginable topic, regardless of how small the number of potential users. Libraries, like restaurants, must specialize in order to appeal to the particular tastes of their clientele. Those who try to be everything to everyone eventually are nothing to anyone.

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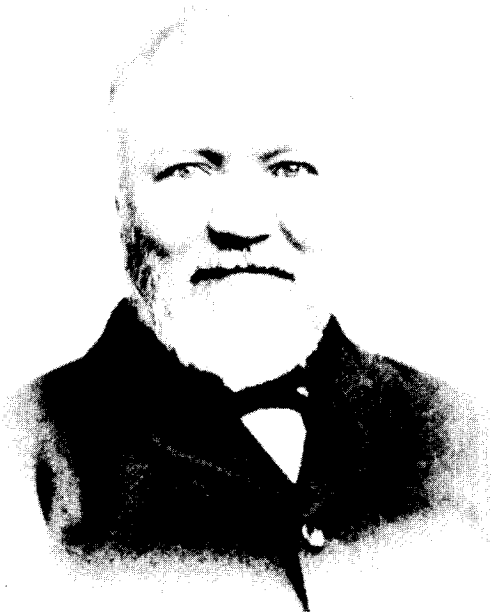

Andrew Carnegie

In his later years, industrialist Andrew Carnegie became one of America's most prolific philanthropists. From 1897 to 1919, Carnegie donated nearly $50 million to communities across the United States, Canada, and Great Britain. Carnegie once remarked:

> I choose free libraries as the best agencies for improving the masses of the people, because they give nothing for nothing. They only help those who help themselves. They never pauperize. They reach the aspiring, and open to those the chief treasures of the world—those stored up in books.[4]

This spirit of self-improvement is the same spirit which led the early colonists to establish libraries voluntarily.

An unfortunate aspect of Carnegie's philanthropy was his insistence that communities tax themselves to support the libraries he established. Rather ironically, Carnegie was promoting self-help, while insisting on compulsory taxation. But the essential point here is that Carnegie's voluntary donations were used to provide library services to millions of people.

Enoch Pratt, who founded the public library in Baltimore with his donation, established an endowment of over $800,000 to provide funds for upkeep of the library. Carnegie also established endowments for four Pennsylvania libraries, before he turned to the use of tax dollars.

Even without philanthropic efforts of the wealthy, the poor need not be without library services. The elimination of public libraries would create a vacuum which the free market would quickly fill. This was demonstrated throughout the 18th and 19th centuries.

New Age of Information

With the proliferation of home and office computers, the market has developed an electronic alternative to the traditional library. Data bases are available for nearly every topic, from business and health to philosophy and sociology. Undoubtedly, more will develop as a need presents itself.

One of the advantages of data bases is that they provide the user with round the clock access, enabling information to be gathered when it is needed. And of course, the user—not the taxpayer—pays for the service. Just as the first libraries evolved out of mutual needs and voluntary associations among individuals, these electronic libraries are providing non-coercive means of resolving common problems. As technology improves, and competition increases, the cost, availability, and range of these services will also improve.

We live in an age of information. As our economy moves away from manufacturing, the needs for information will continue to grow. Because the public library is essentially divorced from market factors, it is unable to keep pace with an ever-changing world. This gap will continue to expand as private businesses assume a greater role in the distribution of information. □

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2. Elizabeth W. Stone, *American Library Development, 1600-1899* (New York: The H. W. Wilson Company, 1977), p. 131.
3. Whitney North Seymour, Jr. and Elizabeth N. Layne, *For the People, Fighting for Public Libraries* (Garden City, N.Y.: Doubleday and Co., 1979), p. 153.
4. Elmer D. Johnson and Michael H. Harris, *History of Libraries in the Western World* (Metuchen, N.J.: The Scarecrow Press, Inc., 1976), p. 271.

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Supply-Side Economics and Austrian Economics

by Bruce Bartlett

The term "supply-side economics" was coined in 1976 by Professor Herbert Stein of the University of Virginia to describe some of the arguments being put forward at that time, primarily by policymakers, to deal with the twin problems of inflation and stagnation, often called "stagflation." Supply-side economics, therefore, was not and is not a separate school of economic thought, such as Austrian economics or Keynesian economics. Rather, it is a shorthand description for a body of economic policies firmly rooted in the free-market tradition of classical economics, Austrian economics, and other schools. It draws upon such resources to support policies aimed at reducing the size of government and government control over the economy. Thus it has far more in common with Austrian economics than it has in conflict.

The origins of supply-side economics explain much of the confusion about what it is about. It is often identified exclusively as a theory of taxation which says that tax cuts pay for themselves. This is a vast oversimplification. Supply-siders never believed that an overall reduction in taxation would increase the government's revenue, through increased economic activity, nor did they confine themselves exclusively to tax issues. They were and are concerned as well with the level of government spending, government regulation, and monetary issues. However, they did achieve their greatest success in pointing out the evils of high progressive tax rates, which led to passage of legislation to reduce marginal income tax rates in 1981 and again in 1986.

Even so, the idea that marginal tax rates (the tax rate on the last dollar earned) might be so high that government revenue is depressed is by no means an original concept. Adam Smith, for example, wrote in *The Wealth of Nations:* "High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes."[1] The idea is also well grounded in Austrian economics. In *Human Action,* Ludwig von Mises wrote:

> Businessmen complain about the oppressiveness of heavy taxes. Statesmen are alarmed about the danger of "eating the seedcorn." Yet, the true crux of the taxation issue is to be seen in the paradox that the more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Thus the fact becomes manifest that ultimately the preservation of private property and confiscatory measures are incompatible. Every specific tax, as well as a nation's whole tax system, becomes self-defeating above a certain height of the rates.[2]

It is also worth mentioning that another Austrian, Henry Hazlitt, often argued against high marginal income tax rates on the grounds that a reduction in such rates would increase government revenue.[3] But as noted earlier, this narrow concept of raising revenue from lower tax rates is really only a sideline. The real essence of supply-side economics is its effort to reduce government intervention in the economy.

In order to reduce government intervention, however, supply-siders found it necessary to confront the prevailing Keynesian orthodoxy on such issues as taxation and the budget deficit. In the mid-1970s, when supply-side economics first appeared, the Keynesian model

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was firmly entrenched in economic policymaking. It was conventional wisdom among both Republicans and Democrats that the government could stabilize the economy through demand management; increasing the budget deficit through increased spending or lower taxes when the economy slowed down, and raising taxes and lowering the deficit when inflation arose.

In the Keynesian framework, only aggregates mattered and demand was the lever which moved the economy. Turning Say's Law on its head, policymakers behaved as though demand created supply. All they had to do was ensure that people had sufficient purchasing power and producers would automatically produce what was needed. But by the mid-seventies, when inflation began to reach dangerously high levels even with high unemployment, this thesis could no longer be sustained.

Reaffirming Say's Law

Thus a central aim of the supply-side movement was simply to restore the idea that the supply side of the economy mattered; that policymakers could not continue to blithely ignore incentives, profit margins, rates of return, and other factors of production. In fact, one aim was nothing less than the re-establishment of the truth of Say's Law. Indeed, one might argue that Jean Baptiste Say was the first supply-sider. As he wrote in his *Treatise on Political Economy,* "the encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption. . . . Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption."[4]

Say's Law, of course, is central not only to supply-side economics, but Austrian economics as well.[5] And as the Keynesians themselves have pointed out, if one accepts the validity of Say's Law—which simply states that commodities are ultimately paid for with other commodities—then the whole Keynesian system collapses. As Keynesian Paul Sweezy put it: "The Keynesian attacks . . . all fall to the ground if the validity of Say's Law is assumed."[6]

In classical political economy there was no distinction between what is called macroeconomics—the economics of the economy as a whole—and microeconomics—the theory of prices and the firm. The distinction was created by John Maynard Keynes, who argued that there are laws of economics which operate differently in the macroeconomy than they do in the microeconomy. For example, price theory indicates that when there is an oversupply of goods, prices must fall to meet demand. Hence, there can never be a general oversupply of goods so long as prices are free to adjust.

Keynes, however, argued that while this may be true for particular goods, it is not true for the economy as a whole. In the case of labor, in particular, he said that wage cuts would not be a satisfactory solution to the problem of unemployment, because as wages decline workers would lose income, thereby reducing their ability to purchase goods and services, leading to a further decline in economic activity. Thus the solution to the problem of oversupply lies in increasing demand, rather than lower prices. This led him to propose budget deficits as the key to stimulating growth.

In Keynes's defense, he never intended for deficits to go on indefinitely, nor was he an advocate of inflation, except under the deflationary conditions of the Great Depression. Even Hayek believes that had Keynes lived longer—he died in 1946—that he would have been a determined fighter against the inflationary policies pursued by governments in the name of Keynesian economics.[7]

By the mid-1970s the failure of Keynesian economics was too obvious to be ignored any longer. Inflation was escalating at ever faster rates and the Keynesians had no satisfactory explanation of the problem or a cure for it, because money plays little role in Keynesian theory. At the same time, budget deficits seemed to lose their stimulative power. As deficits increased, so did unemployment. Thus the Keynesians were left with no policies to offer against the twin problems of rising inflation and rising unemployment. Indeed, in the Keynesian system one should always be able to trade inflation for unemployment, as the so-called Phillips Curve indicates. You weren't supposed to have both at the same time.

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In this environment, the supply-siders attempted to resurrect the forgotten truths of classical economics—elevating, in a sense, microeconomics to the macro economy. To the problem of inflation, they argued for tight money and a return to the gold standard. To the problems of unemployment and slow growth they insisted that high marginal tax rates had to be reduced and government regulations dismantled.

The Effects of Taxes on Employment

Supply-siders believed that inflation had sharply raised tax rates, as people were pushed into higher tax brackets. High tax rates, in turn, altered key relative prices: the price between saving and consumption and the price of work versus leisure. As tax rates rise one will get less saving, more consumption, less work, and more unemployment. Moreover, supply-siders argued, taxes imposed a "wedge" between effort and reward, which explained the rise of unemployment. If a worker finds that higher wages only push him into a higher tax bracket, then he is forced to ask for even higher wages in order to achieve a real, after-tax increase in pay. Hence, higher taxes raise the cost of labor and, consequently, employers demand less of it.

Thus taxes may produce the same kind of malinvestment usually associated with inflation. Investment naturally moves out of heavily taxed sectors into less heavily taxed sectors; if necessary, into the so-called underground economy. During the 1970s one of the hottest businesses was tax shelters, in which paper losses are generated by uneconomic enterprises solely for the purpose of reducing taxes. We found an increasing portion of the nation's capital going into such tax-favored sectors as housing, starving the nation's industrial sector of capital and explaining much of the decline in America's industrial competitiveness.

These negative tax effects are exacerbated by inflation. Inflation increases nominal (money) incomes, pushing people into higher tax brackets when tax schedules are steeply graduated. Consider a family with an income of $19,380 in 1965. This family paid 15.6 per cent of its income in Federal income taxes and a 25 per cent tax rate on each additional dollar earned. By 1980, had this family's income kept pace with inflation, its income would have risen to $45,000 per year. Obviously, its real income has not risen at all, in terms of the goods or services it could purchase with that income. However, because the tax system did not take inflation into account, this family faced a steep increase in taxation. By 1980 it was paying 22.6 per cent of its income to the federal government and paid a 43 per cent tax on each additional dollar earned—its marginal tax rate.[8]

Supply-siders emphasize the economic effects of the marginal tax rate because they believe this is the key tax rate affecting economic decision making. If an individual has a choice between saving or spending his income, the choice will be largely determined by the after-tax rate of return on saving and that return will be determined by the marginal tax rate.

Consider an individual with $100,000. Until 1981 this person could have paid a Federal income tax rate as high as 70 per cent. If the rate of interest is 10 per cent, then his after-tax return might be only $3,000 per year on an investment of $100,000. Thus the cost to him of spending that $100,000 on consumption or the purchase of some good, such as a fine painting, which gives him untaxed income in the form of psychic pleasure, is only $3,000 per year. In this way, high marginal tax rates discourage productive investment and encourage consumption. Since increasing capital formation is the principal means by which the standard of living is raised, the effect of high marginal tax rates is to reduce well-being.

Mises clearly understood this and also emphasized another key point made by supply-siders: The greatest impact of high marginal tax rates is on the entrepreneur. The discouragement of entrepreneurship, in turn, deprives society of its dynamism and will lead to stagnation.[9]

It is worth remembering that the greatest impetus to entrepreneurship in many years took place in 1978 when, under the leadership of supply-siders, Congress cut the maximum tax rate on capital gains in half. Supply-siders argued that the capital gains tax was especially

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harmful to entrepreneurs because their profits —if there are any—usually come in the form of large capital gains rather than income. It is now widely recognized that the 1978 and 1981 cuts in the capital gains tax unleashed an avalanche of entrepreneurship, innovation, risk-taking, and inventiveness which have already benefited our country in countless ways in the form of new products, processes, and businesses which simply would not have resulted without this critical tax change.[10]

Interestingly, the data from both the capital gains tax cut and the reduction in the top personal income tax rate indicate that revenues did in fact rise.[11] They did not rise sufficiently, however, to prevent a large increase in the budget deficit. This is one area where Austrians have been particularly critical of supply-siders.

The problem is that many people forget that if government revenues increase, then spending can also rise without increasing the deficit. During the 1970s, government spending ballooned without a proportionate rise in the deficit because inflation was leading to a sharp rise in taxes, as people were pushed into higher tax brackets. As much as one might be concerned about the financial effects of deficits, no believer in a free society and a free economy can support tax increases solely to reduce deficits. It would be self-defeating because governments will always spend all the money they can get and because the negative economic effects of higher taxes would be greater than whatever negative effects arise from deficits.

This is why some economists, like Milton Friedman, always advocate tax cuts even without corresponding spending cuts, though a deficit would be the result. "I would far rather have total federal spending at $200 billion with a deficit of $100 billion," he says, "than a balanced budget at $500 billion."[12] The key, of course, is to lower government spending and taxation whenever and wherever possible, because they are the true burden of government, regardless of what the deficit is.

The main problem supply-siders have always had with those who voice concern about deficits is that they lend support to those whose true goal is to raise taxes, not cut spending. The correct goal is and should be to reduce government's share of the private economy any way possible. On this, supply-siders and Austrians have no disagreement.

In conclusion, one might usefully think of supply-side economics as a way of rephrasing and repackaging the great truths of Austrian economics in a way to make them more easily understood and appreciated by policymakers. It should be remembered that the great Austrian economist Böhm-Bawerk served as Minister of Finance of Austria and that even Mises spent much of his life as a quasi-government economist for the Lower Austrian Chamber of Commerce, Handicrafts and Industry.[13] They understood well the barriers to adoption of sound economic policies by governments and the value of recasting one's argument to appeal to current concerns and interests. This is not compromise, merely the exercise of political skill.

Ultimately, it must be recognized that the supporters of a free society are few and weak. Their ranks should not be further weakened by misunderstood differences in approaches to political questions when there is no fundamental disagreement on ends. □

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5. See Ludwig von Mises, "Lord Keynes and Say's Law," *The Freeman* (October 30, 1950), reprinted in *Planning for Freedom,* 4th ed. (South Holland, Illinois: Libertarian Press, 1980), pp. 64-71. See also Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, N.J.: D. Van Nostrand, 1959), pp. 32-43.
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10. The most comprehensive review of the effects of the capital gains tax cut is found in Department of the Treasury, Office of Tax Analysis, *Report to Congress on the Capital Gains Tax Reductions of 1978* (Washington: U.S. Government Printing Office, 1985).
11. Lawrence B. Lindsey, *Taxpayer Behavior and the Distribution of the 1982 Tax Cut* (Cambridge, Mass.: National Bureau of Economic Research, Working Paper No. 1760, October 1985).
12. Milton Friedman, "The Limitations of Tax Limitation," *Policy Review* (Summer 1978), p. 12.
13. See Ludwig von Mises, *Notes and Recollections* (South Holland, Illinois: Libertarian Press,1978), pp. 71-92.

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Power and Peasantry: A Report from the Soviet Union

by Sven Rydenfelt

During the first few years after the 1917 Bolshevik Revolution, Russian manufacturing production fell to a fraction of its pre-World War I level. Even worse was the steep decline in food deliveries to the cities. The Lenin government tried to support the townspeople by sending armed patrols to search the farms, confiscating everything edible they could find, including livestock, seed grain, and the peasant families' own food.

By gradually slaughtering and eating the stock of domestic animals and by increasing the proportion of grain and vegetables in the diet, the basic needs of the population were met during the first three years. But in 1921 the oppression and exploitation of the peasants ripened into famine.

The Lenin regime blamed the famine on poor harvests in the Ukraine and other Russian granaries caused by droughts and bad weather. Here Lenin established a precedent for his successors who have consistently blamed crop failures on natural disasters. The Lenin myth was generally believed, and the 1921 famine was interpreted as an unavoidable catastrophe.

Relief expeditions on a massive scale were sent from countries in the West, including the United States. The most important was organized by the League of Nations under the leadership of the Norwegian polar explorer Fridtjof Nansen (awarded the Nobel Peace Prize for this and other achievements in 1922). The lives of 12 to 13 million people were saved, but several millions, most of them peasants, perished. Not only did the relief efforts save tens of millions of lives, but in all probability the Communist regime was saved as well. Without massive relief the famine would have reached such proportions that no regime would have been able to survive.

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This article is adapted from a chapter in Dr. Rydenfelt's book, A Pattern for Failure: Socialist Economies in Crisis *(Harcourt Brace Jovanovich, 1984).*

Stalin's Legacy

In 1929, Stalin felt sufficiently secure to start a massive offensive to socialize the peasants and their private production apparatus. The attack on the private farms, which had increased in number to 25 million as a result of the confiscation and division of the large estates, was not solely ideologically motivated. There was also an economy of scale motive: 25 million "ineffective" small family farms were to be replaced by larger, more effective state farms and collectives.

In addition, there was an administrative motive: it would be easier to manage and control a limited number of big enterprises than millions of small enterprises.

The collectivization of Russian agriculture was carried out with ruthless brutality and terrorism. A catastrophic crop reduction quickly followed. According to the best available estimates—official reports were never published—between 1929 and 1933 five million people died of starvation and five million more were liquidated by the Communists. Special targets for the terror were the owners of large farms—kulaks—accused of being leaders of the

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peasants' resistance against the collectivization campaign. The number of victims in the Communist "war" against the private peasants exceeded the total number of casualties, civilian and military, in all the countries in World War I.

Eventually a socialist agriculture, with large collective and state farms, was erected on the ruins of private agriculture. After a few years of intense suffering, socialist production developed and from the mid-1930s was able to meet the subsistence needs of the population.

Due to economies of scale, new technology, and modern machinery, the road to success in socialist agriculture appeared to lie open. Annual official reports, in fact, boasted about triumphs in food production.

Eventually, however, it was demonstrated that the production of imposing statistical reports is an easier task than the production of sufficient quantities of food. Not even a totalitarian dictator can change the relentless decree of natural law—only food can satisfy hunger and prevent starvation.

Truths about Soviet Agriculture

One year after Stalin's death in 1953, his successor, Nikita Khrushchev, revealed that Russia had fewer livestock than it had had in 1913, and this in a society with 60 million more people to feed than it had before World War I.

Khrushchev blamed the failure on Stalin. Full of optimism, he started to work toward curing the grave ills of Soviet agriculture. Despite some initial success, however, he could not prevent a crop disaster in 1963, which necessitated massive imports of grain from the West. The failure was interpreted as a personal defeat for Khrushchev and strongly contributed to his fall in 1964.

During the following years both the Russians and the rest of the world believed that the troubles were temporary and that with a new and more adequate policy the situation would improve. A new agricultural policy with more chemical fertilizers, more machines, and higher wages for the underpaid agricultural workers was introduced by Khrushchev's successor, Leonid Brezhnev.

New agricultural policies had been introduced so many times in the past, however, that few people believed in them. This time, too, the doubts proved well-founded. The setback in 1963 was followed by new crop failures in 1965, 1972, 1975, 1979, 1980, 1981, 1982, 1983, 1984, and 1985, and substantial increases in the volume of imports became necessary.

A study of crop figures for the 17 years from 1970 to 1986 (see table) reveals not merely a stagnation of production but a decline. The disastrous grain harvest of 165 million tons in 1981 occurred simultaneously with a record harvest of 331 million tons in the United States. For the first time in history, American output was twice that of Russia.

Grain Supply of the Soviet Union (in millions of tons)

Years	Amount Harvested	Goal	Amount Imported
1970	187 (record)	185	10
1971	181	190	8
1972	150	200	21
1973	220 (record)	205	22
1974	196	205	17
1975	140	215	30
1976	223 (record)	220	20
1977	194	225	12
1978	237 (record)	230	18
1979	179	230	32
1980	181	235	33
1981	165	238	37
1982	170	238	42
1983	190	238	29
1984	183	239	55
1985	192	239	37
1986	210	250	32

Sources: Harvest and goal quantities from official Russian statistics. The harvest figures from 1981, 1982, 1983, and 1984 were not published in the statistics but were indirectly confirmed in a speech on November 6, 1986 by the Politbureau member Yegor Ligachev—number two in the Kremlin hierarchy—where he revealed the figure for 1986 and the average for the five preceding years (180 million tons). The figure from 1983 from a speech by Konstantin Chernenko on March 2, 1984. The import volume has been calculated as a sum of figures from the exporting countries.

The imports have been so massive that as early as 1975 the capacity of the Russian ports was exceeded, with ships backed up in long waiting lines. Although the ports were greatly

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expanded, new difficulties arose in 1984 as a result of the record imports of 55 million tons.

Agriculture is one of the few industries in which clear comparisons of productivity between different countries can be made. The percentage of the total labor force allocated to agriculture by each country is a good indicator.

The structure of Soviet agriculture reflects the Soviet leaders' obsession with size. In 1985 the Soviet Union contained 22,000 state farms with an average area of 19,000 hectares—6,500 under cultivation—and 26,000 collective farms with an average area of 6,400 hectares—3,400 under cultivation. From all evidence these areas are far above the optimal size.

At the same time the United States contained 2,200,000 farms with an average area of 190 hectares—75 under cultivation.

In the beginning, agriculture in the Soviet Union was treated as a stepchild, deprived of investments and resources. But since the Stalin era, Soviet governments have tried to cure the chronic ills of socialist agriculture with massive investments—more fertilizers, more machines, and so on. Despite these efforts, agriculture has remained a stagnating industry. During the 1980s more than 30 per cent of total Soviet investment has been allocated to agriculture, a share unsurpassed among industrial countries. The only logical conclusion is that the roots of the trouble must lie deeper, in the socialist system itself.

The gigantic Soviet farms up to now have been able to provide only two-thirds of the nation's needs. The remainder has been made up by production on 35 million private plots and by imports. To fully meet domestic needs, the Soviets would have to allocate at least 30 per cent of their labor force to socialist agriculture rather than the 20 per cent now employed.

Throughout the world it has been demonstrated that small private family farms, once so despised by the founders of socialism, are vastly more productive than gigantic socialist farms.

In the United States, for example, three per cent of the labor force on private farms is producing enough food to satisfy domestic needs and to generate substantial surpluses for export. Before similar performances in the Soviet Union could be achieved, at least 30 per cent of the labor force would have to be allocated to socialist agriculture. By this measure, private agriculture in the United States is approximately ten times more efficient than socialist agriculture in the Soviet Union.

Soviet Peasants—Modern Serfs

For many years, Soviet farmers were drawn to urban areas by higher incomes, better housing, and better working conditions. But since food was chronically in short supply, such migration had to be stopped. So in 1932 Stalin introduced a system of domestic passports. No one was to leave his place of residence for more than 48 hours without a written permit from the police. To get a permit, one needed a passport, but the peasants were denied passports and thus deprived of any legal right to leave their home areas. Serfdom, which had been abolished in 1861 by Czar Alexander II, in effect was reintroduced by Stalin in 1932.

Since Khrushchev's revelations concerning Stalin at the 20th Party Congress in 1956, the serfdom of the peasants under Stalin has been known to the outside world. Less known is the fact that the serfdom system was retained for decades by his successors. Not until the mid-1970s was a decision taken gradually to issue passports to peasants in the period 1976-1981.

Czar Alexander's reform liberated 23 million serfs from their bonds, while Brezhnev's reform granted—not liberation—but greater freedom to 32 million Russian serfs. The freedom of all Russians is limited by the system of domestic passports still in effect—a system similar to that in South Africa.

The roots of the inefficiency of Soviet agriculture lie in the oppression and exploitation of the serfs. Serfs are very seldom inventive. All important productive advances, either in machinery or in the arrangement and distribution of work, have been the discoveries of free men. Despite Soviet promises to redeem the world from oppression and exploitation and to give the weakest and poorest members of society special assistance, their people remain in chains.

In all socialist countries the peasants consti-

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SYGMA

In one of the kolkhoze markets of Moscow. These so-called free markets are operated by farmers from the provinces of the South who come to sell the produce of their little plots of ground at free prices.

tute the poorest and weakest group. Study of agricultural policies in a large number of socialist countries proves that a gulf exists between theory and practice, between promise and fulfillment.

Socialists in power systematically have favored the strong, well-situated urban groups—industrial workers, police, soldiers, and bureaucrats, the political supporters of the regime—while just as systematically they have oppressed and plundered the weakest and poorest—the peasants.

The Serf's Secret Weapon

When the founders of the Soviet Union set out in 1917 to build a socialist state, they started with an unlimited belief in the powers of force and terror. The state coercive apparatus was their primary instrument of policy, and they assumed that the multitude of peasants could be frightened and forced to work as feudal serfs in the service of the socialist state.

Experience soon proved, however, that their faith in force was unjustified. The story of Soviet agricultural policy is not only the story of numerous assaults by the regime on the peasants, but also the story of as many retreats.

The struggle between the peasant masses and the socialist rulers has been going on since 1917. On the one side are the Red masters, armed with the power to set low prices on agricultural products and the power to compel deliveries. They also are armed with a frightening terror apparatus: well-equipped police forces and soldiers, prisons, slave camps, execution platoons.

On the other side are the peasant serfs, poor and seemingly unarmed: In reality, however, they possess a secret weapon. If the peasants do not produce enough food, if shortages and famines arise, the existence of the regime is at stake.

The men in power can oppress, exploit, mistreat, terrorize, and murder the peasants. But always, when pursuing such coercive policies, they have to take into account severe reprisals from the peasants, reprisals in the form of bad harvests, reprisals threatening their own regime. □

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A REVIEWER'S
NOTEBOOK

Harvest of Sorrow

by John Chamberlain

Robert Conquest's *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (New York: Oxford University Press, 412 pp. $19.95) vividly recalls for me the episode that first turned me against the so-called Russian experiment.

I think I was one of the first persons in the United States to learn about the big man-made terror famine that starved seven million people in 1932 and 1933 and sent many more to the gulag in the Siberian taiga. It was Walter Duranty, the *New York Times* Moscow correspondent, who made a casual remark in the *Times* elevator to editorial writer Simeon Strunsky and myself that three million (he was short by four million) peasants had perished at Stalin's whim. When I slipped Duranty's figure into a book review of Tatiana Tchernavina's now-forgotten *Escape From the Soviets* it got Duranty into trouble. To protect his visa he denied having said anything. If Strunsky hadn't been in the elevator with me I would have been in trouble myself.

Subsequently William Henry Chamberlin and Gene Lyons did expose the genesis and extent of the famine. But they had to quit their Moscow posts to do it.

Cut off from Russian research sources, neither Chamberlin nor Lyons could do thorough follow-ups in their accounts of what had happened in Russia's grain-growing regions. It is only now, after more than fifty years, that we have the full story of the famine in Conquest's incredibly detailed book.

The overwhelming conclusion to be drawn from Conquest's complicated interweaving of harrowing deportation stories and starvation-to-death statistics, garnered in good part from the anti-Stalin revelations of Khrushchev's time, is that Communism lives as a system by cheating. Lenin, more of a pragmatist than Stalin, was appalled by what had happened in the Russian countryside when, prematurely, he tried to herd the peasants into collectives just after the Bolsheviks had taken power. Backtracking, Lenin proclaimed his New Economic Policy, or NEP.

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> ***"The question whether the present leaders of the U.S.S.R. would be willing to kill tens of millions of foreigners, or suffer a loss of millions of their own subjects, in a war is sometimes canvassed nowadays. That fact that the older leaders were direct accomplices in the actual killing of millions of Ukrainians and others, in order to establish the political and social order prescribed by their doctrine, and that the young leaders still justify the procedure, may perhaps be regarded as not without some relevance. Thus, . . . the events described in this book cannot be shrugged off as part of the dead past, too remote to be of any current significance."***
>
> —**ROBERT CONQUEST,** *The Harvest of Sorrow*

The peasants, who had accepted the Revolution with a promise that they would get land, were told to enrich themselves. Nobody was to be forced into state farms (sovkhozes) or cooperatives (kolkhozes). The factory farm idea was not abandoned by Lenin, but it was put off to the far future.

What happened was a seven-year period of peace and prosperity throughout the countryside. The more competent peasant farmers who in 1919 had been derided as kulaks (the word comes from "fist") became comparatively wealthy. They had their own horses and cattle, and could afford hired help. Steel plows were just coming into use along with tractors, but the kulaks made do with wooden plows and hoes where it was necessary. In time they would have had their own tractors if the NEP promises had been kept.

The Ukraine, Russia's breadbasket in Czarist times, was the biggest benefactor of NEP. Ukrainian nationalists who had been imprisoned or exiled just after the revolution were pardoned. And cultural nationalism among the Ukrainians was allowed to flourish (the Ukrainians have their own language.)

NEP pleased at least eighty per cent of the Russian people. But it didn't sit well with the ideologues. Lenin's death was followed by a power struggle in which Stalin, siding at first with rightists who wanted socialism in one country, eliminated Trotsky from the leadership. Then, shifting to the left, Stalin took over Trotsky's policy of world revolution.

At the end of the Twenties Stalin decided that the time had come to move against the kulaks who had taken Lenin at his word. Quotas were established for forced grain collections. Ten million peasants who happened to own up to twelve acres were deported in 1929 to the sub-Arctic and told to reproduce conditions of Ukrainian or North Caucasus plenty in a climate where such hopes were a mockery. Naturally the young perished in the bitter cold of the taiga and the tundra.

The poorer peasants who had been left on Ukrainian and North Caucasus farms, threatened with immediate collectivization, killed their cows, horses, and sheep and left their grain to rot in the fields. Millions died—in all, the death toll in the forced 1929-33 famines exceeded the number who had died in World War I. Conquest estimates that fifteen million died either directly or indirectly.

Stalin, a Georgian, had a particular animus against the Ukraine. He closed the borders between the Ukraine and Russia proper. Moscow and Leningrad had food, but the country around Kiev had nothing.

The Kazakhs of inner Asia were another special problem for Stalin. In 1930 a Stalinist minority on the Kazakh Central Committee decreed that 544,000 semi-nomadic Kazakh households out of 566,000 should be "settled" (i.e., collectivized) by the end of the Five-Year Plan. Since Kazakhstan is mainly fit only for grazing, the Kazakhs resisted. They killed their cattle, hid the meat in cold ravines, and died by the thousands when the meat had been used up.

The Kazakhs are in the news once again. They have been demonstrating against Gorbachev's attempt to put non-Moslem Russians in positions of local authority.

Gorbachev, in comparison to Stalin, is trying to run a "nice" reform program to eliminate industrial and agricultural deficiencies. It won't work without a new NEP. Is Gorbachev prepared for that? □

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—Leonard E. Read

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